92-2267

A	ACAP CORP	10Q	03-31-92
B	ACOI INC	10Q	03-31-92
C	ADVACARE INC	10Q	03-31-92
D	AJAY SPORTS INC	10Q	03-31-92
E	AMERICAN EDUCATION CORP	10Q	03-31-92
F	BAYWOOD INTERNATIONAL INC	10Q	03-31-92
G	COMMERCE GROUP INC	10Q	03-31-92
H	DYNAMIC ASSOCIATES INC	10Q	03-31-92
I	FORD HOLDINGS INC	10Q	03-31-92
J	GENCARE HEALTH SYSTEMS INC	10Q	03-31-92
K	HEALTH ADVANCEMENT SERVICES INC	10Q	03-31-92
L	MACKINAC FINANCIAL CORP	10Q	03-31-92
M	MARINE DRILLING COMPANIES INC	10Q	03-31-92
N	MAYNARD OIL CO	10Q	03-31-92
O	PARIS BUSINESS FORMS INC	10Q	03-31-92
P	PRINCETON DENTAL MANAGEMENT CORP	10Q	03-31-92
Q	ROBOTIC VISION SYSTEMS INC	10Q	03-31-92
R	SURETY CAPITAL CORP	10Q	03-31-92
S	SYQUEST TECHNOLOGY INC	10Q	03-31-92
T	UNION TANK CAR CO	10Q	03-31-92
U	VENCOR INC	10Q	03-31-92

SEC-File™ is published by Q-Data Corporation, 3230 Bennett Street North, St. Petersburg, FL 33713. Copyright ©1992. All rights reserved. Duplication of this microfiche in its entirety is prohibited. Q-Data Corporation does not guarantee the accuracy, currency, or completeness of any material reproduced herein. All reports are offered for historical purposes only, and not in connection with an offer to sell or a solicitation of an offer to buy any securities of any company. Reports reproduced herein may or may not be complete or identical to reports filed with the Securities & Exchange Commission (S.E.C.) or other regulatory agencies. NO REPORT SHOULD BE RELIED ON WITHOUT VERIFYING ITS COMPLETENESS AND ACCURACY WITH THE REPORTING COMPANY OR THE S.E.C. Q-DATA MAKES NO WARRANTY, EXPRESS OR IMPLIED, AS TO ANY MATTER WHATSOEVER, INCLUDING ANY WARRANTY OF MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE FOR ANY Q-FILE OR SEC-FILE MICROFICHE OR DOCUMENT INCLUDED THEREIN.

O'11598

92 14 6296

Q 385711

10

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

#92-2267

(Mark One)

☑ QUARTERLY REPORT pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarter ended March 31, 1992

☐ TRANSITION REPORT pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from ____________ to ____________

Commission file number 0-14451

Acap Corporation

(Exact name of Registrant as specified in its charter)

State of Incorporation: Delaware	IRS Employer Id.: 25-1489730

Address of Principal Executive Office:
121 West Pike Street
Canonsburg, Pennsylvania 15317

Registrant's telephone number, including area code: (713) 974-2242

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. _✓_ Yes _____ No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

CLASS	OUTSTANDING AT MAY 13, 1992
Common Stock, Par Value $.10	3,084,429

PROCESSED BY
MAY 18 1992

10-10 = I.

Microfilmed by
Q-Data Corp. - St. Petersburg, FL

L3U

ACAP CORPORATION AND SUBSIDIARY

FORM 10-Q

Index

Page No.

Part I. Financial Information:

Item 1. Financial Statements

Condensed Consolidated Balance Sheets - March 31, 1992 (Unaudited) and December 31, 1991 3-4

Condensed Consolidated Statements of Operations - Three Months Ended March 31, 1992 and 1991 (Unaudited) 5

Condensed Consolidated Statements of Cash Flows - Three Months Ended March 31, 1992 and 1991 (Unaudited) 6

Notes to Condensed Consolidated Financial Statements (Unaudited) 7

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations 8-9

Part II. Other Information:

None

PART I. ITEM 1. FINANCIAL INFORMATION

ACAP CORPORATION AND SUBSIDIARY
CONDENSED CONSOLIDATED BALANCE SHEET
MARCH 31, 1992 AND DECEMBER 31, 1991
(UNAUDITED)

ASSETS	1992	1991
Investments:		
Fixed maturities (at amortized cost)	$39,307,770	37,914,883
Equity securities (at market)	540,892	537,633
Mortgage loans	4,487,606	4,659,067
Real estate	1,332,759	1,332,759
Policy loans	8,122,709	8,143,552
Short-term investments	5,698,487	7,803,271
Total investments	59,490,223	60,391,165
Accrued investment income	751,271	795,297
Accounts receivable (less allowance for uncollectible accounts of $72,900 and $59,349)	194,621	240,577
Deferred policy acquisition costs	8,157,691	8,377,440
Property and equipment (less accumulated depreciation of $638,661 and $637,046)	282,322	306,272
Costs in excess of net assets of acquired business (less accumulated amortization of $191,565 and $176,829)	2,166,137	2,180,873
Other assets	476,052	460,272
	$71,518,317	72,751,896

Note: The balance sheet at December 31, 1991 has been taken from the audited financial statements at that date and condensed.

See accompanying notes to consolidated financial statements.

LIABILITIES AND STOCKHOLDERS' EQUITY

	1992	1991
Liabilities:		
Policy liabilities:		
Future policy benefits	$54,342,171	54,746,383
Contract claims	447,479	715,735
Unearned premiums	35,513	28,868
	54,825,163	55,490,986
Other policyholders' funds	1,725,496	1,724,981
Other liabilities	673,349	941,326
Notes payable	9,366,000	9,622,000
Total liabilities	66,590,008	67,779,293
Stockholders' equity:		
Series A preferred stock, par value $.10 per share, authorized, issued and outstanding 74,000 shares	1,850,000	1,850,000
Common stock, par value $.10 per share, authorized 3,330,000 shares, issued 3,156,522 shares	315,652	315,652
Additional paid-in capital	6,078,378	6,078,378
Accumulated deficit	(3,141,230)	(3,093,677)
Treasury stock, at cost, 72,093 shares	(105,799)	(105,799)
Unrealized losses on marketable equity securities	(68,692)	(71,951)
Total stockholders' equity	4,928,309	4,972,603
	$71,518,317	72,751,896

See accompanying notes to consolidated financial statements.

ACAP CORPORATION AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
THREE MONTHS ENDED MARCH 31, 1992 AND 1991
(UNAUDITED)

	1992	1991
Revenues:		
Premiums and other considerations	$ 1,487,980	1,679,510
Net investment income	1,150,194	1,380,732
Other income	40,157	49,952
Total revenues	2,678,331	3,110,194
Benefits and expense:		
Death benefits	841,512	1,040,657
Other benefits	551,799	524,444
Dividends to policyholders	27,282	43,521
Commissions and general expenses	816,918	958,886
Interest expense	174,949	257,332
Amortization of deferred policy acquisition costs	219,749	232,144
Amortization of costs in excess of net acquired business	14,736	14,736
Total benefits and expenses	2,646,945	3,071,720
Income before federal income tax expense	31,386	38,474
Federal income tax expense	35,000	--
Net income (loss)	$ (3,614)	38,474
Net income (loss) per common share:	$ (.02)	--

See accompanying notes to consolidated financial statements.

ACAP CORPORATION AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED MARCH 31, 1992 AND 1991
INCREASE (DECREASE) IN CASH (UNAUDITED)

	1992	1991
Cash flows from operating activities:		
Net income from operations	$ (3,614)	38,474
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	41,228	43,126
Amortization of policy acquisition costs	219,749	134,725
Premium and discount amortization	(18,867)	(10,687)
Realized gains on sale of investments	(47,196)	(88,016)
Loss on sale of block of business	--	97,419
Decrease in accrued investment income	44,026	12,604
Decrease in accounts receivable	45,956	106,080
Decrease (increase) in other assets	(15,780)	173,911
Decrease in future policy benefits	546	(15,146)
Increase (decrease) in contract claims	(268,256)	(168,677)
Increase (decrease) in other policyholders' funds	7,160	26,447
Increase (decrease) in other liabilities	(267,977)	(309,408)
Net cash provided (used) by operating activities	(263,025)	40,852
Cash flows from investing activities:		
Proceeds from sales of investment securities	4,094,076	2,249,483
Purchase of investment securities	(5,420,900)	(856,523)
Principal repayments on mortgage loans	171,461	70,757
Net decrease (increase) in policy loans	20,843	(2,739)
Net decrease (increase) in short-term investments	2,104,784	(1,165,795)
Purchase of property and equipment	(2,542)	(76,318)
Net cash transferred on sale of block of business	--	(464,245)
Net cash provided (used) by investing activities	967,722	(245,380)
Cash flows from financing activities:		
Principal payments on notes payable	(256,000)	(106,000)
Deposits on policy contracts	303,988	444,244
Withdrawals from policy contracts	(708,746)	(821,853)
Preferred dividends paid	(43,939)	(55,500)
Net cash provided (used) by financing activities	(704,697)	(539,109)
Net increase (decrease) in cash	--	(743,637)
Cash at beginning of period	--	842,445
Cash at end of period	$ --	98,808

See accompanying notes to consolidated financial statements.

ACAP CORPORATION AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The condensed consolidated balance sheet as of March 31, 1992 and the condensed consolidated statements of operations and cash flows for the three month periods ended March 31, 1992 and 1991, have been prepared by Acap Corporation (the "Company"), without audit. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations, and changes in cash flows at March 31, 1992 and for all periods presented have been made.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. It is suggested that these condensed consolidated financial statements be read in conjunction with the financial statements and notes thereto included in the Company's December 31, 1991 annual report to shareholders. The results of operations for the three month periods ended March 31, 1992 and 1991 are not necessarily indicative of the operating results for the full year.

2. EARNINGS PER SHARE

Earnings per common share is computed by dividing net income (less dividends paid on preferred stock of $43,939 and $55,500 for March 31, 1992 and 1991, respectively) by the weighted average number of shares of common stock outstanding (3,084,429 at March 31, 1992 and March 31, 1991).

3. STOCKHOLDERS' EQUITY

During the three months ended March 31, 1992, stockholders' equity changed for the following items: Decrease in net unrealized investments losses on equity securities of $3,259; net loss of $3,614; and cash dividends paid on preferred stock of $43,939.

4. SUPPLEMENTAL INFORMATION REGARDING CASH FLOWS

Cash payments for interest expense for the three months ended March 31, 1992 and March 31, 1991 were $208,212 and $292,886, respectively. A cash payment of $35,000 for federal income tax expense was made during the three months ended March 31, 1992.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

Premium income declined 11% in the first quarter of 1992 compared to the first quarter of 1991. The decrease in premiums is attributable to normal policy terminations from surrenders, lapses, deaths and maturities. Policies reaching the end of the premium paying period and achieving a paid up status also contributed to the decline in premium income.

Net investment income declined 17% in the first quarter of 1992 compared to the first quarter of 1991. The decline in net investment income resulted from the decline in market interest rates and the general decline in invested assets.

Total revenues for the three months ended March 31, 1992 were 14% lower than revenues for the three months ended March 31, 1991. Revenues can generally be expected to decline under the Company's acquisition-oriented business strategy until the Company identifies and acquires another block of premium paying business.

Policy benefits (which include death benefits, dividends to policyholders, and other policy benefits) were 53% of total revenue during the first quarter of 1992 compared to 52% of total revenue during the first quarter of 1991.

Total expenses (which include commissions and general expenses, interest expense and the amortization of both deferred acquisition costs and costs in excess of net assets of acquired business) were 46% of total revenue during the first quarter of 1992 compared to 47% of total revenue during the first quarter of 1991.

The Company had a net loss of $3,614 for the three months ended March 31, 1992 compared to net income of $38,474 for the three months ended March 31, 1991.

LIQUIDITY AND CAPITAL RESOURCES

At March 31, 1992, the Company maintained 8% of consolidated assets in cash and short-term investments compared to 10.7% of consolidated assets at December 31, 1991. The Company has continued investing a portion of cash and short-term investments in longer duration securities as market interest rates continue at low levels. The Company continues to hold a higher percentage of its invested assets in cash and short-term investments than the industry average. Negative cash flows from operations, withdrawals from annuities and other interest-sensitive policies issued by the Company exceeding the cash deposits received on those policies, and debt service requirements resulted in a net reduction in assets during the first quarter.

At March 31, 1992, the Company had notes payable with outstanding principal balances totalling $9,350,000. The Company services the notes payable through a surplus debenture issued by American Capitol Insurance Company ("American Capitol") the Company's wholly-owned subsidiary.

The Company does not have sufficient funds at the parent level to pay the Preferred Stock dividend payments scheduled for May 15, 1992. Subject to obtaining approval from the Company's bank lender (which the Company expects to receive) the Company will borrow funds from related parties which will be sufficient to fund the above mentioned Preferred Stock dividend payments. The loans will be evidenced by unsecured notes which the Company will have the right to pay at any time and which are payable on demand of the noteholders, bearing interest at a rate that matches the dividend rate on the Preferred Stock, which is based on the prime rate of a Pittsburgh bank plus 2%. Also, if the notes are not paid on or before December 31, 1992, a conversion right will arise in favor of each noteholder to convert the notes to shares of authorized but unissued common stock of the Company (to the extent that the same exists) at a per share price equal to the lowest bid price that may exist from time to time between the date of the notes and the date on which the conversion right is exercised.

In the future, the options for providing funds to make preferred stock dividend payments include: obtaining a waiver from the Company's bank lender to make prepayments on American Capitol's surplus debenture, borrowing funds from affiliates, restructuring the surplus debenture and bank debt in connection with a future acquisition to provide payments from American Capitol to the Company in excess of debt servicing needs, obtaining approval from state regulatory authorities for extraordinary dividend payments from American Capitol, or raising additional equity in the Company.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Quarterly Report of Form 10-Q for the quarter ended March 31, 1992 to be signed on its behalf by the undersigned thereunto duly authorized.

ACAP CORPORATION

Date: May 13, 1992

By:______________________________
William F. Guest, President

By:______________________________
John D. Cornett, Treasurer
(Principal Accounting Officer)

0 23395
Q 35706

92 14 9696

12

MANUALLY SIGNED COPY

B92.2267

RECD S.E.C.
MAY 15 1992
144

RECD S.E.C.
MAY 15 1992
143

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 1992

Commission file number 0-16090

ACOI, INC.
(Exact name of registrant as specified in its charter)

Nevada (State or other jurisdiction of incorporation or organization)	87-0447375 (I.R.S. Employer Identification No.)
14651 Dallas Parkway, Suite 900 Dallas, Texas (Address of principal executive offices)	75240 (Zip Code)

Registrant's telephone number, including area code: (214) 404-1637

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No ___

APPLICABLE ONLY TO CORPORATE ISSUERS

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. - Common Stock, par value $.03 per share - 10,307,277 shares outstanding as of May 12, 1992.

Number of pages in this report - 13
No Exhibit Index is filed with this report.

PROCESSED BY
MAY 18 1992

12
12:P
L3Q

Microfilmed by
Q-Data Corp. - St. Petersburg, FL

PART I
FINANCIAL INFORMATION

Item 1. Financial Statements

INDEX TO FINANCIAL STATEMENTS

	Sequential Page
Consolidated balance sheets at March 31, 1992 (unaudited) and December 31, 1992	3
Consolidated statement of operations (unaudited) for the three months ended March 31, 1992 and March 31, 1991	4
Consolidated statements of cash flows (unaudited) for the periods ended March 31, 1992 and March 31, 1991	5
Notes to consolidated financial statements	6

A C O I, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	March 31, 1992	December 31 1991
	(Unaudited)	
ASSETS		
Investments:		
Bonds, at amortized cost, at market	$ 984,334	$ 985,919
Nonredeemable preferred stock, at market	50,050	50,050
Short-term investments, at cost	890,067	1,296,401
Total investments	1,924,451	2,332,370
Cash	1,536,873	1,616,691
Premium and agents' balances receivable	8,668,092	8,904,253
Reinsurance recoverable	181,529	400,297
Deferred policy acquisition costs	1,199,936	1,252,249
Excess of cost over net assets acquired	6,361,762	6,437,239
Other assets	872,722	860,245
Total assets	$ 20,745,365	$ 21,803,344
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Notes payable	$ 1,071,756	$ 1,217,193
Notes payable to related party	750,000	800,000
Unpaid losses and loss adjustment expense	3,303,588	3,352,810
Unearned premiums	4,624,343	4,601,656
Reinsurance balances payable	355,167	1,312,771
Drafts outstanding	398,139	523,411
Accounts payable and other accrued expense	730,923	768,528
Accrued interest and franchise taxes payable	73,332	179,476
Est liabilities in excess of discontinued oper	47,829	51,496
	11,355,077	12,807,342
Stockholders' Equity		
Common stock, $.03 par value; 100,000,000 shares authorized; 10,307,277 outstanding	318,218	318,218
Capital in excess of par value	10,195,315	10,195,315
Treasury Stock	(600,000)	(600,000)
Accumulated deficit	(523,244)	(917,530)
Total Stockholders' Equity	9,390,288	8,996,002
Total Liabilities & Stockholders' Eqty	$ 20,745,365	$ 21,803,344

The accompanying notes are an intergral part
of these consolidated financial statements

A C O I, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF OPERATIONS
(Unaudited)

	Three Months Ended 03/31 1992	Three Months Ended 03/31 1991
REVENUES:		
Premiums earned	$ 2,153,098	$ 1,803,884
Investment income-net	63,713	101,323
Finance serv charges	526,436	167,148
Other income	63,298	35,075
Total Revenues	2,806,545	2,107,430
COSTS AND EXPENSES:		
Losses and loss adjustment expense	1,462,073	838,698
Policy acquisition, underwriting and other operating expense	657,355	917,878
Deferred policy acquisition cost	153,842	68,423
Interest expense	34,150	72,720
Amortization expense	95,839	39,564
Total Costs and Expenses	2,403,259	1,937,283
INCOME FROM CONTINUING OPER BEFORE INCOME TAXES	403,286	170,147
Provision for federal income taxes	168,977	
INCOME FROM CONTINUING OPERATIONS	234,309	170,147
Extraordinary tax benefit loss carry forward	159,977	
INCOME (LOSS) FROM CONTINUING OPERATIONS	$394,286	$170,147
INCOME PER SHARE OF COMMON STOCK	$ 0.04	$ 0.02
Average number of shares of common stock outstanding	10,607,277	10,597,277

The accompanying notes are an intergral part of these consolidated financial statements

A C O I, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended March 31	
	1992	1991
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 394,286	$ 170,147
Adjustments to reconcile net income to cash used by operating activities:		
Depreciation and amortization	75,476	39,564
Change in premium notes receivables		740,744
Change in premiums and agents' balances	236,161	(1,858,499)
Change in deferred policy acquisition costs	52,313	(156,673)
Change in reinsurance recoverable	218,768	
Change in unpaid losses and loss adjustment expenses	(49,222)	(38,972)
Change in unearned premiums	22,687	838,120
Change in reinsurance funds held-other	(957,604)	35,885
Change in accounts payable and other accrued expenses	(37,605)	(479,249)
Changes in other assets and liabilities,net	(235,252)	202,984
Net cash provided (used) by operating activities	(279,992)	(505,949)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(12,308)	(33,937)
Sale of short-term investments	406,334	2,000,764
Purchase of short-term investments		(667,990)
Change in restricted cash		2,000,000
Change in bond investment	1,585	
Net cash provided (used) by investing activities	395,611	3,298,837
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds (repayments) of short-term borrowing	(145,437)	(2,523,225)
Payment of note payable to related party	(50,000)	(50,000)
Net cash provided (used) by financing activities	(195,437)	(2,573,225)
NET INCREASE (DECREASE) IN CASH	(79,818)	219,663
CASH AT BEGINNING OF PERIOD	1,616,691	474,654
CASH AT END OF PERIOD	$ 1,536,873	$ 694,317

The accompanying notes are an intergral part of these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - CONSOLILATED FINANCIAL STATEMENTS - BASIS OF PRESENTATION

The accompanying consolidated financial statements have been prepared by the Company without audit. In the opinion of management, all necessary adjustments (which include only normal recurring adjustments) have been made to present fairly the financial position, results of operations and changes in financial position at March 31, 1992, and for all periods presented.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. It is suggested that these financial statements be read in conjunction with the notes to financial statements which are included in the Company's annual report on Form 10-K for the year ended December 31, 1991. The results of operations for the period ended March 31, 1992, are not necessarily indicative of the operating results to be expected for the full year.

NOTE 2 - INVESTMENTS

At March 31, 1992, investments of the Company consisted of certificates of deposit, short term United States Agency Securities and preferred stock. No securities were purchased or sold during the reporting period, therefore, no gains or losses were realized.

NOTE 3 - INCOME TAXES

The provision for federal income taxes for the first quarter ended March 31, 1992, consists of the following:

Current	$ 9,000
Deferred	159,977
Total	$168,977

The deferred tax provision for the current quarter ended March 31, 1992, results primarily from timing differences related to deferred acquisition costs.

At December 31, 1991, the Company had net operating loss (NOL) carry forwards of approximately $985,000 for financial reporting purposes.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Introduction. The Company engages in the sale of consumer products and services on credit terms, primarily to lower and middle income customers. Its target market is the estimated 30% of Americans who are typically denied credit from banks, credit card companies and other conventional channels, or who have never established a bank account or credit history.

The Company's business currently involves premium financing, marketing and underwriting of non-standard automobile insurance. The Company conducts these activities through an integrated Insurance Group, the dominant members of which are American Hallmark Insurance Company of Texas ("Hallmark") and Brokers General, Inc. ("BGI"). Hallmark underwrites non-standard automobile liability and physical damage coverage and provides premium financing to its policy holders on a direct billing basis. BGI manages the marketing of Hallmark's policies through a network of retail insurance agencies which operate under the *American Hallmark Insurance Agencies of Texas* name. The Insurance Group operates exclusively in Texas.

Liquidity and Capital Resources. During the fourth quarter of 1991, Hallmark ceded an additional 10% of its insurance portfolio to Liberty National Fire Insurance Company ("Liberty"), retroactive to January 1, 1991. At December 31, 1991, the Company recorded Hallmark's obligation to pay Liberty 10% of net premiums written since January 1, 1991 (net of ceding commissions) as reinsurance balances payable.

During the first quarter of 1992, Hallmark paid Liberty approximately $1,180,450 to satisfy the obligation accrued at December 31, 1991. Internal cash flow provided funds for approximately $694,450 of the payment; the Company liquidated certificates of deposit of approximately $486,000 to fund the balance. As a result, the Company's cash and short-term investments decreased by approximately $486,000 between December 31, 1991 and March 31, 1992. Reinsurance balances payable decreased by approximately $957,600 during the period.

The Company increased the amount of insurance Hallmark cedes to reinsurers from 50% to 60% in part to strengthen Hallmark's premium-to-surplus ratio. This step, coupled with a $1,075,000 cash contribution to Hallmark's surplus the Company made in the first quarter of 1991, improved Hallmark's premium-to-surplus ratio from 4.4 to 1 at December 31, 1990 to 2.64 to 1 at December 31, 1991. Hallmark achieved this improvement even though its net premiums written grew from approximately $12,600,000 in 1990 to approximately $21,800,000 in 1991, a 73% increase. At March 31, 1992, the ratio was 2.35 to 1 on an annualized basis. The revenue and earnings implications of the improvements in Hallmark's premium-to-surplus ratio are discussed in ***Results of Operations.***

At March 31, 1992, Hallmark reported capital and surplus of $3,514,284 on a statutory accounting basis, compared to $3,244,550 at December 31, 1991. In management's opinion, Hallmark enjoys a sound capital and surplus position and, absent extraordinarily adverse claims experience, should not require additional capital infusions during the foreseeable future.

At March 31, 1992, the Company had approximately $90,000 in unrestricted working capital, with no working capital commitments. Management believes that this working capital reserve, coupled with unrestricted cash generated by the Insurance Group's operations and from investments, will be adequate to support projected internal growth of the Company's current business activities.

The Company's use of Hallmark's capital and surplus is restricted by law. Hallmark may not pay dividends or make loans to the Company without approval from the Texas Department of Insurance. The Company does not expect to receive any dividends or loans from Hallmark during 1992.

The Company will require additional capital as it expands into other lines of business, either through acquisitions or by internally developing new business concepts. The Company recently applied for a license to operate a personal finance (small loan) company in Texas and anticipates that the license will be issued during the second quarter of 1992. Management has not decided on the character or scope of the finance company's operations or on the time its operations will be launched. These decisions will dictate whether, and how much, additional capital the Company will need to fund the finance company's operations. As of the date of this Report, the Company has no commercial credit facilities in place and has not engaged an underwriter to explore the feasibility of additional debt or equity financing.

The Company will also require additional capital to finance possible acquisitions of other companies. It currently plans to finance acquisitions of other businesses primarily by issuing Common Stock and obtaining seller debt financing. In March 1992, the Company filed a registration statement with the Securities and Exchange Commission to register 1,025,000 shares of Common Stock for issuance from time to time in connection with asset acquisitions the Company may pursue. The registration does not apply to Common Stock the Company may issue in exchange for the capital stock and other securities of acquired companies; any exchange offers involving Common Stock will probably be structured as private placements. As of the date of this Report, management has not identified any particular acquisition candidate.

Results of Operations. 1992 increases in premiums earned and finance service charges are attributable to higher volumes of insurance written by Hallmark. Increase in losses and LAE expense is partially attributable to increased volumes. In addition, refinements in Hallmark's case-basis method of estimating loss reserves and increased claims on policies Hallmark wrote in 1990 and 1991 resulted in a significant increase in the reserves after the end of the 1991 first quarter.

Investment income declined substantially between the 1991 and 1992 periods for two reasons. Interest rates on certificates of deposit, money market funds and other short-term, interest-bearing securities continued to decline after March 31, 1991. Also, the Company liquidated substantially all its short-term investments to generate cash used during 1991 to increase Hallmark's surplus, to repay bank debt associated with the 1990 acquisition of the business and assets of Acadine Capital Corporation ("ACC"), and to acquire the Altex insurance agency.

Other income for the 1992 first quarter was substantially higher than in the 1991 period because 1992 results include service fees Citizens Adjustment and Reporting Service ("CARS") received from an unaffiliated insurance company. CARS is a claims adjustment and subrogation recovery company which BGI acquired effective January 1, 1991. Its operations were not included in the Company's operating results until the acquisition was formally consummated later in the year.

Policy acquisition, underwriting and other operating expenses are presented net of ceding commissions earned by BGI. Also, the sales commissions BGI pays its retail agents are netted against BGI's ceding commissions. Effective January 1, 1992, BGI reduced the rate of commissions payable to its retail agents, but also assumed certain administrative burdens and costs the agents formerly bore. This change significantly increased BGI's net commission income and accounts for most of the reduction in other policy acquisition, underwriting and other operating expenses between the first quarters of 1991 and 1992. Also, during the first quarter of 1992, BGI discontinued the appointments of two independent agencies which marketed Hallmark policies. This step also reduced BGI's commission expense for the first quarter of 1992.

Interest expense was significantly lower during the 1992 first quarter because the principal amount of notes payable decreased during 1991, primarily as a result of the Company's paying off bank debt associated with the ACC acquisition.

Amortization expense was higher in the 1992 first quarter as a result of reclassifications of certain items related primarily to the Hallmark and ACC acquisitions. These reclassification are reflected in the Company's year-end financial statements for 1991, but quarterly statements for periods prior to the time a decision to reclassify the items was made have not been adjusted.

The Texas legislature amended the Texas Insurance Code in September 1991 to replace existing premium rate-setting procedures with a new flexible rating plan. The new legislation directed the Department of Insurance to set benchmark rates for various categories of automobile insurance coverage and to establish a flexibility band for each rating category. The legislation provides that the bands may not deviate above or below the benchmark rates by more than 30%. It also provides that an insurer's rates must fall within the flexibility bands, unless it applies for and receives authorization from the Department of Insurance to charge non-conforming rates.

The Department of Insurance held hearings on the benchmark rates and flexibility bands in December 1991. In January 1992, the Department adopted existing standard rates as the benchmark rates. It also adopted flexibility bands of 30% below and 25% above the benchmark rates. The Department gave insurers until March 1, 1992 to file and begin using conforming rate schedules.

Hallmark's rates historically exceeded standard rates by substantially more than 25%, and the Department's action effectively foreclosed the possibility of Hallmark's continuing to write insurance profitably on a consent-to-rate basis. However, the new rate-setting procedures do not apply retroactively and do not affect the validity of policies Hallmark wrote prior to March 1, 1992 on a consent-to-rate basis.

Management anticipated the Department's action and, in the fall of 1991, began exploring the possibility of acquiring or affiliating Hallmark with a county mutual insurance company. (A county mutual insurance company is a type of Texas casualty insurance carrier whose operations are governed by special statutory standards. Among other things, a county mutual company's premium rates are not subject to the new flexible rating plan.)

Effective March 1, 1992, Hallmark and BGI entered into an affiliation arrangement with State and County Mutual Fire Insurance Company, a county mutual insurance company ("State and County"). This arrangement involves two principal aspects.

First, State and County appointed BGI as a managing general agent, authorizing BGI to issue State and County policies in accordance with underwriting guidelines and rate schedules proposed from time to time by Hallmark. Hallmark may adjust its rate schedules at any time. The adjusted rates become effective when State and County files them with the Department of Insurance; Department review or approval of the adjusted rates is not required.

Second, State and County contracted with Hallmark and Liberty to reinsure 100% of the risk under the State and County policies BGI issues. Hallmark accepted 40% of the reinsured risk and Liberty accepted 60%. Liberty, which is rated A+ by the A.M. Best Insurance Guide, unconditionally guaranteed Hallmark's obligations to State and County.

State and County receives commissions on the State and County policies BGI issues, equal to a percentage of net premiums written. The commission rate decreases as the annual volume of net premiums written exceeds specified levels. County mutual insurance companies are allowed to charge policy origination fees in addition to premiums, and BGI charges origination fees for the State and County policies it issues. Management anticipates that State and County's commissions will be fully funded from BGI's policy origination fees.

As compensation for acting as managing general agent, BGI receives ceding commissions equal to a percentage of net premiums written in excess of State and County's commission. This portion of BGI's commission is fixed and is not subject to reduction under the separate risk-sharing agreement between Hallmark and Liberty. In addition, BGI is entitled to a profit commission equal to the amount by which earned premiums exceed (i) losses and LAE incurred by Hallmark and Liberty on the ceded risk, (ii) State and County's commission, (iii) and an expense factor payable to Liberty, which includes compensation for its guaranty.

Under a separate agreement between Hallmark and Liberty, the two reinsurers share risk on a 40-60 basis up to the point the actual loss ratio on State and County policies reaches 64.2%. If the actual loss ratio is less than 64.2%, Hallmark receives the entire underwriting profit. Between a loss ratio of 64.2% and 100%, Hallmark bears the entire risk. Between a loss ratio of 100% and 108%, the parties again share the risk on a 40-60 basis. This agreement replaces the reinsurance contracts Hallmark had in place during 1991 and, in the opinion of management, potentially positions the insurance group to realize revenues substantially in excess of those available under the reinsurance contracts in place during 1990 and 1991.

The affiliation arrangement with State and County may temporarily affect the Insurance Group's revenues and expenses. As of the date of this Report, the arrangement had not been in effect long enough for identifiable trends to develop, although Hallmark's share of net premiums written during March 1992 were consistent with its net premiums written during March of the prior year. Also, management's continuing efforts to improve the Insurance Group's operating and marketing efficiencies and its ability to adjust Hallmark's premium rate schedules within a matter of days are expected to offset any temporarily adverse effects.

As indicated above, the new risk-sharing agreement with Liberty perpetuates Hallmark's policy of reinsuring 60% of its risk. Although the 1991 increase from 50% to 60% in the amount of insurance Hallmark cedes to reinsurers requires that Hallmark give up an additional 10% of premium revenues, the step has improved the Insurance Group's overall revenue and earnings potential in several ways.

As noted in ***Liquidity and Capital Resources***, the increase in reinsurance ceded contributed to a substantial strengthening of Hallmark's premium-to-surplus ratio, which determines the amount of insurance Hallmark may write consistent with Department of Insurance guidelines. During the first quarter of 1992, Hallmark achieved $5,085,655 in net premiums written (compared to $5,276,984 during the 1991 first quarter), while maintaining an annualized premium-to-surplus ratio of 2.35 to 1. Although Hallmark's share of premiums earned on this business is 10% less than in years prior to 1991, BGI is not obligated to share its ceding commissions with Liberty. BGI's commission income therefore increases as total net premiums written increase.

Also, the amount of premiums with respect to which Hallmark can offer premium financing, and the resulting finance service charge revenue, increases as Hallmark's net premiums written increase. Hallmark does not share any of its finance service charge revenues with Liberty. In addition, the policy of reinsuring 60% of the claims risk reduces Hallmark's exposure to adverse claims trends.

In addition to implementing the flexible rating plan, the Department of Insurance amended the regulations governing premium finance plans effective March 1, 1992. The new regulations severely restrict the service charges an insurer may impose under a direct billing program. Hallmark is currently complying with the new regulations and is making its premium finance program available to all insureds. The new regulations do not apply retroactively and do not affect Hallmark's ability to collect finance charges for which it contracted prior to March 1, 1992. The new regulations therefore will not immediately create an adverse impact on Hallmark's finance service charge revenues, but may in the future unless the Department of Insurance adjusts the rates permitted under the new regulations or Hallmark adopts an alternative to its direct billing program. Under any circumstances, management believes that the new premium finance regulations will not have a materially adverse affect on the Insurance Group's overall revenues and earnings for 1992.

On April 28, 1992, certain areas of north and central Texas experienced a severe hail storm which damaged many automobiles. As of the date of this Report, approximately 200 property damage claims have been filed under Hallmark policies for damages totaling approximately $290,000. Hallmark's 40% share of this risk equals approximately $116,000. The total number of claims which may be submitted and the total damages claimed has yet to be determined. This extraordinary occurrence may adversely affect Hallmark's loss ratio for 1992.

PART II
OTHER INFORMATION

Item 1. Legal Proceedings

No material legal proceedings involving the Company or any of its subsidiaries were initiated or terminated during the quarter ended March 31, 1992. There were no material developments during the quarter ended March 31, 1992 in any litigation previously reported by the Company.

Item 2. Changes in Securities

None

Item 3. Defaults upon Security Securities

None

Item 4. Submission of Matters to a Vote of Security Holders

None

Item 5. Other Information

Item 13 of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1991 describes an agreement under which C. Brent Haggard, the individual who owns Acadine Capital Corporation, agreed to return 300,000 shares of the Company's Common Stock he received in connection with the Company's acquisition of ACC's business and assets. The certificate for the 300,000 shares was being held in safekeeping by the transfer agent for the Common Stock, pending verification that certain conditions to the certificate's delivery to the Company had been satisfied. On May 14, 1992, Mr. Haggard furnished the Company a letter addressed to the transfer agent, directing the transfer agent to deliver the certificate for the 300,000 shares to the Company.

Item 6. Exhibits and Reports on Form 8-K

(a) No exhibits are filed with this report.

(b) The Company did not file a Current Report on Form 8-K to report any events which occurred during the quarter ended March 31, 1992.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AMERICAN CREDIT OPTICAL, INC.
(Registrant)

Date: May 14, 1992

Ramon D. Phillips, President (chief executive officer)

Date: May 14, 1992

Johnny J. DePuma, Chief Financial Officer

0 32162

Exhibit Index pg

22

Q 357056

92 14 6724

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

RECEIVED

138

Washington, D.C. 20549

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

C92-2267

For the quarterly period ended March 31, 1992

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

PROCESSED BY

22 — 14 :A

MAY 18 1992

For the transition period from ____________ to ____________

Commission file number 0-19742

Microfilmed by
Q-Data Corp. - St. Petersburg, FL

ADVACARE, INC.
(Exact name of registrant as specified in its charter)

C30

Delaware	04-2902582
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

Two Walnut Grove Drive, Horsham, PA 19044
(Address of principal executive offices) (Zip Code)

(215) 674-1800
(Registrant's telephone number, including area code)

Not Applicable
(Former name, former address and former fiscal year, if changes since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No ____

As of May 11, 1992 there were 11,287,336 shares of Common Stock, par value $.01 per share, outstanding.

BEST COPY
AVAILABLE

INDEX TO QUARTERLY REPORT ON FORM 10-Q

PART I.	FINANCIAL INFORMATION	PAGE NO.
Item 1.	Financial Statements (unaudited)	
	Balance Sheets	I-1
	Statements of Operations	I-2
	Statements of Cash Flows	I-3
	Notes to Unaudited Financial Statements	I-4
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	I-6
PART II.	OTHER INFORMATION	
Item 5.	Other Information	II-1
Item 6.	Exhibits and Reports on Form 8-K	II-1
SIGNATURES		II-2
EXHIBIT INDEX		II-3

ADVACARE, INC.
BALANCE SHEETS

	September 30,1991	March 31,1992 (Unaudited)
ASSETS		
CURRENT ASSETS:		
Cash	$ 801,186	$11,935,762
Accounts receivable billed, net of allowance for doubtful accounts of $877,000 and $670,000	9,904,762	10,873,518
Accounts receivable, unbilled	16,486,775	20,488,747
Prepaid and other current assets	3,757,294	3,949,602
Total current assets	30,950,017	47,247,629
OTHER ASSETS	893,879	987,273
EQUIPMENT AND FIXTURES, less accumulated depreciation and amortization of $3,291,389 and $4,092,008	4,320,269	4,525,471
COMPUTER SOFTWARE, less accumulated amortization of $809,240 and $1,322,263	5,433,704	7,321,633
INTANGIBLE ASSETS, less accumulated amortization of $3,167,808 and $4,532,495	36,268,046	37,304,920
TOTAL ASSETS	$77,865,915	$97,386,926
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term obligations	$ 2,832,118	$ 2,902,897
Notes payable to former subsidiary	2,000,000	
Accounts payable and accrued expenses	10,905,485	10,339,767
Deferred income taxes	333,154	224,406
Total current liabilities	16,070,757	13,467,071
LONG-TERM OBLIGATIONS:		
Bank	13,891,861	
Subordinated	17,359,577	10,000,000
Other	9,790,596	7,758,698
	41,042,034	17,758,698
DEFERRED INCOME TAXES	989,579	989,579
OTHER LONG-TERM LIABILITIES	4,168,266	3,568,266
SERIES E REDEEMABLE STOCK		
Authorized, issued and outstanding 857,143 shares; $.01 par value. (liquidity preference $6,264,517)	4,193,825	
STOCKHOLDERS' EQUITY:		
Common stock $.01 par value: 20,000,000 shares authorized, issued 7,765,226 and 12,040,050	77,651	120,129
Additional paid-in capital	31,644,331	84,056,906
Accumulated deficit	(18,667,266)	(19,520,460)
Less treasury stock at cost (255,845 and 955,845 common shares)	(1,525,262)	(2,925,262)
Less employee stock purchase loan	(128,000)	(128,000)
Total stockholders' equity	11,401,454	61,603,314
LIABILITIES AND STOCKHOLDERS'EQUITY	$77,865,915	$97,386,926

ADVACARE, INC.
STATEMENTS OF OPERATIONS
(Unaudited)

	Three months ended March 31,		Six months ended March 31,	
	1991	1992	1991	1992
REVENUES	$11,269,508	$18,249,343	$21,649,352	$35,960,022
OPERATING EXPENSES:				
Payroll and fringe benefits	5,916,634	9,991,229	11,714,476	19,824,863
Selling, general and administrative	3,655,697	4,813,735	7,343,395	10,022,153
Depreciation and amortization	737,405	1,137,391	1,468,272	2,213,110
Restructuring charges	17,602,577		17,602,577	
Total	27,912,313	15,942,355	38,128,720	32,060,126
OPERATING INCOME (LOSS)	(16,642,805)	2,306,988	(16,479,368)	3,899,896
INTEREST EXPENSE	609,154	632,928	1,290,755	1,852,824
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	(17,251,959)	1,674,060	(17,770,123)	2,047,072
INCOME TAX (BENEFIT) PROVISION	(857,000)	807,000	(883,000)	987,000
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE EXTRAORDINARY ITEM	(16,394,959)	867,060	(16,887,123)	1,060,072
DISCONTINUED OPERATIONS, NET	(278,706)	-	(510,598)	-
INCOME (LOSS) BEFORE EXTRAORDINARY ITEM	(16,673,665)	867,060	(17,397,721)	1,060,072
EXTRAORDINARY ITEM, NET	-	1,913,266		1,913,266
NET INCOME (LOSS)	(16,673,665)	(1,046,206)	(17,397,721)	(853,194)
PREFERRED DIVIDENDS AND ACCRETION	(58,313)	(1,844,193)	(58,313)	(2,059,587)
NET LOSS AVAILABLE TO COMMON STOCKHOLDERS	$(16,731,978)	$(2,890,399)	$(17,456,034)	$(2,912,781)
PRIMARY AND FULLY DILUTED EARNINGS PER COMMON SHARE:				
CONTINUING OPERATIONS	$ (2.36)	$ (.10)	$ (2.49)	$ (.12)
DISCONTINUED OPERATIONS	(.04)		(.08)	
EXTRAORDINARY ITEM		(.20)		(.22)
	$ (2.40)	$ (.30)	(2.57)	(.34)
WEIGHTED AVERAGE NUMBER OF COMMON AND COMMON EQUIVALENT SHARES OUTSTANDING	6,959,253	9,707,024	6,804,035	8,618,090

See notes to unaudited financial statements.

ADVACARE, INC.
STATEMENTS OF CASH FLOWS
(Unaudited)

	Six months ended March 31,	
	1991	1992
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss) for period	$(17,397,721)	$(853,194)
Adjustments to reconcile net income (loss) to net cash flows from operating activities:		
Extraordinary item		3,188,777
Loss from discontinued operations	510,598	
Depreciation and amortization	1,468,272	2,213,110
Deferred income taxes (benefit)	(971,000)	(244,749)
Non-cash charge for warrant extension	145,000	
Non-cash restructuring charges	15,930,650	
Amortization of debt discount	74,191	206,707
Changes in assets and liabilities:		
Accounts receivable	(2,419,870)	(3,965,812)
Prepaid and other current assets	758,740	(1,342,511)
Accounts payable and accrued expenses	(165,271)	(3,385,551)
Net cash provided by (used for) operating activities..........................	(2,066,411)	(4,183,223)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cost of acquisitions, net of cash acquired	(2,070,398)	267,293
Capital expenditures, excluding capital leases	(346,770)	(1,020,786)
Development of computer software	(1,790,462)	(2,100,952)
Net cash used for investing activities.........	(4,207,630)	(2,854,445)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of common and preferred stock	6,237,496	55,509,950
Borrowings under bank revolving credit facility	13,000,000	-
Repayment of debt due to bank	(10,458,000)	(14,500,000)
Decrease in other debt	(2,100,019)	(15,221,877)
Purchase of treasury stock		(1,400,000)
Retirement of Series E preferred stock		(6,215,829)
Debt issuance costs	(661,779)	-
Net cash provided by (used for) financing activities..........................	6,017,698	18,172,244
NET INCREASE (DECREASE) IN CASH	(256,343)	11,134,576
CASH AND EQUIVALENTS, BEGINNING OF PERIOD	477,941	801,186
CASH AND EQUIVALENTS, END OF PERIOD	$ 221,598	$11,935,762

See notes to unaudited financial statements.

ADVACARE, INC.

NOTES TO UNAUDITED FINANCIAL STATEMENTS

Note 1. Financial Statements

The accompanying interim financial statements have been prepared by the Company without audit. These statements include all adjustments which management believes are necessary for a fair presentation of the statements and have been prepared on a consistent basis using the accounting policies described in the Summary of Accounting Policies included in the Prospectus dated January 29, 1992 relating to the Company's initial public offering of Common Stock and filed as part of the Company's Registration Statement on Form S-1 (No. 33-44451) filed on January 29, 1992. These policies and Notes to Financial Statements included in the Prospectus should be read in conjunction with the accompanying interim financial statements. The interim operating results are not necessarily indicative of the operating results expected for the full year.

Note 2. Initial Public Offering

In February 1992, the Company received $56.6 million in proceeds (net of underwriting discounts and commissions) from its initial public offering of 4,200,000 shares of Common Stock. Approximately $38.3 million of such proceeds were used to repay amounts outstanding under the Company's bank credit facility, to retire subordinated debt, to redeem Series E Redeemable Preferred Stock, to repurchase common stock pursuant to a stock option agreement and to pay a note due in connection with the spin-off of a subsidiary (see Note 5). The Company used an additional $2.0 million of such proceeds to repay certain acquisition indebtedness. For additional discussion of the impact of these and other proposed uses of proceeds on the capitalization of the Company, see the sections captioned "Use of Proceeds" and "Capitalization" in the Company's Prospectus dated January 29, 1992 and filed as part of the Company's Registration Statement on Form S-1 (No. 33-44451) filed on January 29, 1992.

Note 3. Repayment of Debt and Series E Redeemable Preferred Stock

The Company used a portion of the proceeds from its initial public offering to repay certain indebtedness. Due to the acceleration of amortization of original issue discount and deferred financing costs associated with indebtedness, there was a one-time non-cash extraordinary reduction in net income in the amount of $1.9 million, net of taxes of $1.3 million. This extraordinary item increased the loss per common share by $.20 and $.22 for the three month and six month periods ended March 31, 1992, respectively.

Income available to common stockholders was reduced by $1.8 million ($.19 and $.21 per share for the three month and six month periods ended March 31, 1992) due to the acceleration of amortization of original issue discount resulting from the early retirement of the Company's Series E Redeemable Preferred Stock.

Note 4. Acquisitions

In March 1992, the Company acquired Mednet, Inc. and two affiliated companies for $1.6 million in cash and $1.1 million in a 7 1/2% note payable semiannually over five years. The companies provide medical reimbursement management services to hospital and office-based physicians in the Southeastern United States. The transaction was accounted for as a purchase and, accordingly, the purchase price was allocated to the assets and liabilities acquired based on their respective estimated fair values at the date of acquisition. The excess $2.0 million of purchase price over the net assets acquired is being amortized on a straight-line basis over 20 to 25 years. Proforma results have not been presented because the acquisition is not material to the results of operations of the Company.

Note 5. Distribution of Common Stock of Subsidiary

In December 1991, the Board of Directors authorized the distribution of the common stock of its wholly owned subsidiary, AdvaCare Network Services, Inc. ("ANS") to the stockholders of the Company. The distribution of this subsidiary, the net assets of which approximated $1.0 million, was recorded as a reduction of additional paid-in capital of the Company. In conjunction with the distribution of ANS, the Company contributed a $2 million note payable to be used for future working capital by the subsidiary.

Note 6. Contingencies

The Company is currently a party to a number of legal proceedings and claims which have arisen in the ordinary course of its business. In the opinion of management, the amount of ultimate liability with respect to any of these actions will not materially affect the financial statements of the Company.

Note 7. Subsequent Event

In April 1992, the Board of Directors approved the advance settlement of the two contingent earn-out agreements remaining from the acquisition of its Physician Division operating units in the Southwest Region of the United States. The consideration in connection with these settlements, which aggregated $3.4 million in cash and 234,282 shares of common stock, will be recorded as additional purchase price of the acquired companies.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations

The following table shows certain income statement data expressed as a percentage of revenues for the periods indicated:

	Three Months Ended March 31,		Six Months Ended March 31,	
	1991	1992	1991	1992
Revenues	100.0%	100.0%	100.0%	100.0%
Operating expenses:				
Payroll and fringe benefits	52.5	54.8	54.1	55.1
Selling, general and administrative	32.4	26.4	33.9	27.9
Depreciation and amortization	6.6	6.2	6.8	6.2
Operating income before restructuring charges	8.5	12.6	5.2	10.8
Restructuring charges	156.2	—	81.3	—
Operating income	(147.7)	12.6	(76.1)	10.8
Interest expense (net)	5.4	3.5	6.0	5.2
Income (loss) from continuing operations before income taxes	(153.1)	9.1	(82.1)	5.6
Income tax (benefit) provision	(7.6)	4.4	(4.1)	2.7
Income (loss) from continuing operations	(145.5)	4.7	(78.0)	2.9
Income (loss) from discontinued operations, net	(2.5)	-	(2.4)	-
Net income (loss) before extraordinary items	(148.0)	4.7	(80.4)	2.9
Extraordinary item, net	—	10.5	—	5.3
Net income (loss)	(148.0)	(5.8)	(80.4)	(2.4)

Three Months Ended March 31, 1992 and March 31, 1991

Revenues increased 61.9% to $18.2 million for the three months ended March 31, 1992 from $11.3 million for the comparable prior period. This increase was due primarily to the inclusion of revenues from three companies acquired during fiscal 1991. Client contract signings remained strong in the second quarter of fiscal 1992 but installations were temporarily delayed due to the need to bring all of the Company's clients into line with recently enacted Medicare physicians payment reform.

Operating income was $2.3 million for the three months ended March 31, 1992 as compared to $960,000 (before restructuring charges of $17.6 million) for the same quarter of the prior year. Operating income as a percentage of revenues increased to 12.6% for the three months ended March 31, 1992 compared to 8.5% (before restructuring charges) for the comparable prior period reflecting the allocation of overhead expenses over a larger revenue base, and the inclusion of operating losses in the three month period ended March 31, 1991 incurred by one of the Company's acquired operations which was subsequently disposed of. The full impact of this increase was partially offset by increased payroll costs.

The restructuring charges recorded in the comparable prior period related principally to the writedown of goodwill and the provision for losses associated with prior acquisitions.

Net interest expense increased 3.9% to $633,000 for the three months ended March 31, 1992 from approximately $609,000 in the comparable prior period.

Income from continuing operations before taxes was $1.7 million for the quarter compared to $351,000 (before restructuring charges of $17.6 million) for the same period in the prior year.

The Company's effective tax rate from continuing operations was 48.2% for the three months ended March 31, 1992 compared to an effective tax benefit of 5.0% for the comparable prior period. The Company's effective tax rate in each of these periods differed from the federal statutory rate due primarily to the amortization of goodwill and certain other expenses that were nondeductible for tax purposes.

Income from continuing operations after taxes was $867,000 for the quarter compared to $333,000 (before restructuring charges of $16.7 million, net of tax benefit) for the same period a year ago. For the quarter, income per common share from continuing operations, before preferred dividends and accretion and fiscal 1991 restructuring charges, was $.09 compared to $.05 for the same period a year ago. The anticipated early retirement of the Company's Series E Redeemable Preferred Stock with a portion of the proceeds from the Company's January 29, 1992 initial public offering resulted in a one-time non-cash reduction in net income available to common stockholders in the amount of $1.8 million ($.19 per share). This item led to a loss per common share from continuing operations of $.10 compared to $2.36 in the comparable prior period. In addition, the repayment of certain indebtedness with a portion of the proceeds of the initial public offering resulted in the acceleration of amortization of associated original issue discount and deferred financing costs, which is reflected in a one-time non-cash extraordinary reduction in net income in the amount of $1.9 million ($.20 per share), net of taxes. This extraordinary item increased the loss per common share to $.30 compared to $2.40 in the comparable prior period.

Six Months Ended March 31, 1992 and March 31, 1991

Revenues increased 66.1% to $36.0 million for the six month period ended March 31, 1992 from $21.6 million for the same period of the prior year. This increase was due primarily to the inclusion of revenues from three companies acquired during fiscal 1991.

Operating income for the six month period ended March 31, 1992 was $3.9 million compared to $1.1 million (before restructuring charges of $17.6 million) for the same period of the prior year. Operating income as a percentage of revenues increased to 10.8% compared to 5.2% (before restructuring charges of $17.6 million) for the comparable prior period reflecting the allocation of overhead expenses over a larger revenue base and the inclusion of operating losses in the six month period ended March 31, 1991 incurred by one of the Company's acquired operations which was subsequently discontinued in fiscal 1991. The full impact of this increase was partially offset by increased payroll costs.

The restructuring charges recorded in the comparable prior period related principally to the writedown of goodwill and the provision for losses associated with prior acquisitions.

Net interest expense increased 43.5% to $1.9 million for the six month period ended March 31, 1992 from approximately $1.3 million in the comparable prior period primarily reflecting additional borrowings to finance acquisitions made during the latter part of fiscal 1991.

Income from continuing operations before taxes was $2.0 million for the six month period ended March 31, 1992 compared to a loss of $167,000 (before restructuring charges of $17.6 million) for the same period in the prior year.

The Company's effective tax rate from continuing operations was 48.2% for the six months ended March 31, 1992 compared to an effective tax benefit of 5.0% for the comparable prior period. The Company's effective tax rate in each of these periods differed from the federal statutory rate due primarily to the amortization of goodwill and certain other expenses that were nondeductible for tax purposes.

Income from continuing operations after taxes was $1.1 million for the six month period ended March 31, 1992 compared to a loss of $159,000 (before restructuring charges of $16.7 million, net of tax benefit) for the same period a year ago. For the six month period, income per common share from continuing operations, before preferred dividends and accretion and fiscal 1991 restructuring charges, was $.12 compared to a loss of $.02 for the same period a year ago. The anticipated early retirement of the Company's Series E Redeemable Preferred Stock with a portion of the proceeds from the Company's January 29, 1992 initial public offering resulted in a one-time non-cash reduction in net income available to common stockholders in the amount of $1.8 million ($.21 per share). This item led to a loss per common share from continuing operations of $.12 compared to $2.49 in the comparable prior period. In addition, the repayment of certain indebtedness with a portion of the proceeds of the initial public offering resulted in the acceleration of amortization of associated original issue discount and deferred financing costs, which is reflected in a one-time non-cash extraordinary reduction in net income in the amount of $1.9 million ($.22 per share), net of taxes. This extraordinary item increased the loss per common share to $.34 compared to $2.57 in the comparable prior period.

Liquidity and Capital Resources

In February 1992, the Company received $56.6 million in proceeds from its initial public offering of 4,200,000 shares of Common Stock. Approximately $38.3 million of such proceeds were used to repay amounts outstanding under the Company's bank credit facility, to retire subordinated debt, to redeem Series E Redeemable Preferred Stock, to repurchase common stock pursuant to a stock option agreement and to pay a note due in connection with the spin-off of a subsidiary (see Note 5 to the Company unaudited financial statements). The Company used an additional $2.0 million of such proceeds to repay certain acquisition indebtedness. For additional discussion of the impact of these and other proposed uses of proceeds on the capitalization of the Company, see sections entitled "Use of Proceeds" and "Capitalization" in the Company's Prospectus dated January 29, 1992 and filed as part of the Company's Registration Statement on Form S-1 (No. 33-44451) filed on January 29, 1992.

For the six months ended March 31, 1992 the Company invested approximately $5.5 million to further enhance its proprietary computer software and to finance the increase in the Company's unbilled receivable balance. Such amounts were financed with additional borrowings under the Company's bank credit facility and the proceeds from the initial public offering.

The Company presently has a credit facility with a commercial bank which was increased to $22 million effective September 28, 1991. Amounts available under this facility are calculated based upon a formula equal to twice the Company's earnings before depreciation, interest, taxes and amortization for the latest twelve month period. This credit facility bears interest at LIBOR plus 2.75% or the prime rate plus 1.75% at the option of the Company and is secured by substantially all of the Company's assets. At March 31, 1992, the entire balance of the line is available.

PART II - OTHER INFORMATION

Item 5. Other Information

The registrant has entered into a definitive agreement with Thomas H. McConnell, M.D., a director and executive officer of the registrant, concerning an option to purchase 170,000 shares of the registrant's Common Stock at an exercise price of $10.50 per share. The option was disclosed, subject to the execution of definitive agreements, in the registrant's final prospectus dated January 29, 1992, included in the registrant's Registration Statement on Form S-1 (No. 33-44451) filed on January 29, 1992.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits.

10.1	Non-Qualified Stock Option Agreement, dated as of December 31, 1991, by and between AdvaCare, Inc. and Thomas H. McConnell, M.D.
11	Statement re computation of per share earnings

(b) Reports on Form 8-K.

No reports on Form 8-K were filed by the Company during the quarter ended March 31, 1992.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ADVACARE, INC.

DATE: May 14, 1992

By:
Bruce M. Mergenthal
Vice President, Treasurer and
Chief Financial Officer
(Duly authorized officer and
principal financial officer)

EXHIBIT INDEX

Exhibit No.		Page
10.1	Non-Qualified Stock Option Agreement, dated as of December 31, 1991, between AdvaCare, Inc. and Thomas H. McConnell, M.D.	15
11	Statement re computation of per share earnings	21

Exhibit 10.1

ADVACARE, INC.

NON-QUALIFIED STOCK OPTION AGREEMENT

AGREEMENT made as of the 31st day of December, 1991, by and between AdvaCare, Inc. (the "Corporation") and Thomas H. McConnell (the "Grantee").

WITNESSETH

WHEREAS, the Board of Directors of the Corporation (the "Board") has determined that it is in the best interest of the Corporation to enter into a consulting agreement with the Grantee; and

WHEREAS, the Corporation and the Grantee have entered into a consulting agreement as of the date hereof; and

WHEREAS, by resolution adopted on December 16, 1991, the Board approved the grant, in connection with such consulting agreement, of non-qualified stock options to the Grantee to purchase common stock of the Corporation, par value $.01 per share (the "Stock"), in accordance with the terms and provisions of this agreement;

NOW, THEREFORE, the parties hereto, intending to be legally bound hereby, agree as follows:

1. Grant of Option.

Subject to the terms and conditions hereinafter set forth, the Corporation hereby grants to the Grantee, as of the date first written above (the "Date of Grant"), an option to purchase up to 170,000 shares of Stock at a price of $10.50 per share (the "Option"). The ceiling stated in the previous sentence on the maximum number of shares which may be acquired under the Option is referred to herein as the "Number of Option Shares". The Grantee shall have the right hereunder to purchase from the Corporation, on and after the following dates, in cumulative fashion, the following number of shares:

(a) on and after April 30, 1992 (the "Initial Vesting Date"), up to one-half of the Number of Option Shares;

(b) on and after the first anniversary of the Initial Vesting Date, up to an additional one-quarter of the Number of Option Shares; and

(c) on and after the second anniversary of the Initial Vesting Date, the remaining portion of the Number of Option Shares.

The Grantee may exercise the Option in whole at any time or in part from time to time, subject to the restrictions set forth herein.

Notwithstanding the foregoing, the Option shall automatically be accelerated and shall be exercisable in full upon the occurrence of any "change in control" of the Corporation, and in such event the Option shall remain exercisable in full for the period following any such "change in control" until the Option has been fully exercised or expires pursuant to its terms. "Change in control" means a change in the ownership of the Stock of the Corporation where (i) a corporation, person or group acting in concert as described in Section 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), holds or acquires beneficial ownership of a number of shares of Stock which constitutes more than 30 percent of the Corporation's outstanding shares of Stock within the meaning of Rule 13d-3 promulgated under the Exchange Act and (ii) the Board of Directors of the Corporation after having been advised that such ownership level has been reached, does not, within 90 days thereafter, adopt a resolution specifically approving the acquisition of that level of shares of Stock by such person.

2. Type of Option.

The Option granted hereunder is intended by the parties hereto to be, and shall be treated as, a "non-qualified" stock option.

3. Termination of Option.

The Option shall have a term of seven (7) years from the Date of Grant and shall terminate at the expiration of such period, unless terminated at an earlier date pursuant to the further provisions of this Agreement.

Upon the termination of the consulting agreement for any reason (except as a result of retirement, disability or death), any unexercised Option shall be exercisable by the Grantee at any time within thirty (30) days after the date of such termination but only to the extent such option was exercisable on the date of such termination. Upon the termination of the consulting agreement as a result of the Grantee's retirement, disability or death, the Option may be exercised during the three month period following the date of such retirement, disability or death for a number of shares which shall not exceed the number of shares for which the Option was exercisable on such date.

Subject to the foregoing, in the event of the Grantee's death, the Option may be exercised by the Grantee's legal representative, but only to the extent that the Option was exercisable as of the date of death.

4. Forfeiture of the Option.

Notwithstanding any other provisions set forth herein, if the Grantee shall (i) commit any act of malfeasance or wrongdoing affecting the Corporation or any Subsidiary, (ii) breach any representation, warranty or covenant contained in the consulting agreement or (iii) otherwise engage in conduct that would warrant the Grantee's discharge for cause (excluding general dissatisfaction with the performance of the Grantee's duties, but including any act of disloyalty or any conduct clearly tending to bring discredit upon the Corporation or any Subsidiary), the unexercised portion of the Option shall terminate immediately and be void.

5. Exercise Procedures.

The Grantee may exercise the Option with respect to all or any part of the whole number of shares then exercisable by giving the Secretary of the Corporation written notice of intent to exercise. Such notice shall specify the number of shares as to which the Option is to be exercised and the exercise date, which date shall be at least five (5) days after the giving of such notice unless the Corporation and the Grantee shall have agreed upon an earlier time. Full payment (in U.S. dollars) by the Grantee of the Option price for the shares purchased shall be made on or before the exercise date specified in such notice in cash, or, in the event that the Board shall, in its sole discretion, determine that the Option shall be exercisable by tendering shares of Stock of the Corporation, the Option price may be paid in whole or in part through the surrender of shares of Stock at the fair market value of such shares determined as of the last trading date prior to the date on which the Option is exercised.

On the exercise date specified in the Grantee's notice or as soon thereafter as is practicable, the Corporation shall, without transfer or issue tax or other incidental expense to the Grantee, cause to be delivered to the Grantee, a certificate or certificates for such shares (out of theretofore unissued shares or reacquired shares, as the Corporation may elect) upon payment for the shares. The obligation of the Corporation to deliver Stock shall, however, be subject to the condition that if at any time the Board shall determine in its discretion that the listing, registration or qualification of the Option, or the shares subject to the Option, upon any securities exchange or under any state or federal law, or the consent or approval of any governmental regulatory body, is necessary or desirable as a condition of, or in connection with, such Option or the issue or purchase of shares thereunder, the Option may not be exercised in whole or in part unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Board.

If the Grantee fails to pay for any of the shares specified in such notice or fails to accept delivery thereof, the Grantee's right to purchase such shares may be terminated by the Corporation. The date specified in the Grantee's notice as the date of exercise shall be deemed the date of exercise of the Option, provided that payment in full shall have been received by such date.

6. Grantee's Securities Law Representations.

The Grantee hereby represents and warrants to the Corporation that: (1) the Grantee will comply with all applicable conditions of the Securities Act of 1933, as amended (the "1933 Act"), and the rules and regulations promulgated thereunder, in effecting any sale of shares of Stock subject to the Option and (2) the Grantee shall not dispose of any such shares in any manner that is, or as may involve the Corporation in, a violation of any federal or state securities law, including the 1933 Act.

If the Board shall deem it appropriate by reason of any securities law, it may require that the Grantee, upon exercise in whole or in part of this Option, represent to the Corporation in writing that the purchase of the Stock is for investment only and not with a view towards distribution. The Board may require that the Stock certificates be inscribed with a legend restricting disposition of any shares of such Stock in any manner which may result in a violation of the 1933 Act.

7. Certain Corporate Changes.

In the event of a reorganization, recapitalization, change of shares, stock split, spin-off, stock dividend, reclassification, subdivision or combination of shares, merger, consolidation, rights offering, or any other change in the corporate structure or shares of the Corporation, the Board shall make such adjustment as it deems appropriate in the number and kind of shares subject to the Option, or in the Option price.

8. No Rights of Shareholder.

Neither the Grantee nor any personal representative of the Grantee shall be, or have, any of the rights and privileges of a shareholder of the Corporation with respect to any shares subject to the Option, in whole or in part, except to the extent that certificates for such shares shall have been issued upon the exercise of the Option as provided for herein.

9. Non-Transferability of Option.

During the Grantee's lifetime, the Option shall be exercisable only by the Grantee or by a guardian or legal representative of the Grantee and neither the Option shall be transferable except by will or by the laws of descent and distribution, nor shall the Option be subject to attachment, execution or other similar process. In the event of any attempt by the Grantee to alienate, assign, pledge, hypothecate or otherwise dispose of this Option, except as provided for herein, or in the event of the levy of any attachment, execution or similar process upon the rights or interest hereby conferred, the Corporation may terminate the Option by notice to the Grantee and the Option and all rights hereunder shall thereupon become null and void.

10. Employment Not Affected.

Neither the granting of the Option nor its exercise shall be construed as granting to the Grantee any right with respect to continuance of employment by or Affiliation with the Corporation or any Subsidiary. Except as may otherwise be limited by a written employment or other agreement between the Corporation or any Subsidiary and the Grantee, the right of the Corporation or any Subsidiary to terminate at will the Grantee's employment or Affiliation with it at any time (whether by dismissal, discharge, retirement or otherwise) is specifically reserved by the Corporation or any Subsidiary.

11. Amendment or Cancellation of the Option.

The Option may be amended or canceled by the Board at any time (i) if the Board determines, in its sole discretion, that amendment or cancellation is necessary or advisable in light of any change in the Internal Revenue Code of 1986, as amended, or in the regulations promulgated thereunder, or in any federal or state securities law or other law or regulation, which change occurs after the Date of Grant and by its terms retroactively applies to the Option or (ii) other than in the circumstances described in clause (i), with the Grantee's consent.

12. Notice.

Any notice to the Corporation provided for in this instrument shall be addressed to the Corporation in care of its Secretary, and any notice to the Grantee shall be addressed to the Grantee at the current address shown on the records of the Corporation. Any notice shall be deemed to be duly given if and when properly addressed and posted by registered or certified mail, postage prepaid.

13. Governing Law.

The validity, construction, interpretation and effect of this instrument shall exclusively be governed by, and determined in accordance with, the laws of the Commonwealth of Pennsylvania, except to the extent preempted by federal law, which shall to that extent govern.

IN WITNESS WHEREOF, the Corporation has caused its duly authorized officers to execute and attest this Non-Qualified Stock Option Agreement, and to apply the corporate seal hereto, and the Grantee has placed his signature hereon, effective as of the Date of Grant.

[CORPORATE SEAL]

ADVACARE, INC.

Attest:

Secretary

By:

Title:

Thomas H. McConnell

ADVACARE, INC.
Calculation of Income (loss) Per Share

Exhibit 11
(page 1 of 2)

	Three Months Ended March 31,			
	1991		1992	
	Primary	Fully Diluted	Primary	Fully Diluted
Shares:				
Weighted Average common shares outstanding	6,915,836	6,915,836	9,687,226	9,687,226
Add:				
Common share equivalents including stock options and stock warrants .(2)	43,417	43,417	19,798	19,798
Common shares converted from subordinated debentures	-	- (1)	-	- (1)
Adjusted weighted average common shares outstanding	6,959,253	6,959,253	9,707,024	9,707,024
Income (loss) from continuing operations..	$(16,394,959)	$(16,394,959)	$ 867,060	$ 867,060
Adjustments for:				
Accretion/Accrual of Series E Dividends	(58,313)	(58,313)	(1,844,193)	(1,844,193)
Interest on Subordinated Convertible Debt, net of income taxes	-	- (1)	-	- (1)
Adjusted Income (Loss) from continuing operations	$(16,453,272)	$(16,453,272)	$(977,133)	$(977,133)
Income (loss) from discontinued operations..	$(278,706)	$(278,706)	-	-
Net Income (loss) before extraordinary item.......	$(16,731,978)	$(16,731,978)	$(977,133)	$(977,133)
Extraordinary item.........			$ 1,913,266	$ 1,913,266
Net income (loss)..........	$(16,731,978)	$(16,731,978)	$(2,890,399)	$(2,890,399)
Net Income (loss) per share:				
Income (loss) per share from:				
Continuing operations ...	$(2.36)	$(2.36)	(.10)	(.10)
Discontinued operations..	$(. 04)	$(.04)	-	-
Extraordinary item.......			(.20)	(.20)
Net Income (loss) per share..	$(2.40)	$(2.40)	$(.30)	$(.30)

---

(1) Item excluded because its inclusion in calculation would be anti-dilutive.

(2) Represents options granted in September, 1991 which are considered cheap stock for the purposes of this calculation.

Exhibit 11
(page 2 of 2)

ADVACARE, INC.
Calculation of Income (loss) Per Share

	Six Months Ended March 31,			
	1991		1992	
	Primary	Fully Diluted	Primary	Fully Diluted
Shares:				
Weighted Average common shares outstanding	6,760,618	6,760,618	8,592,353	8,592,353
Add:				
Common share equivalents including stock options and stock warrants .(2)	43,417	43,417	25,737	25,737
Common shares converted from subordinated debentures	-	- (1)	-	- (1)
Adjusted weighted average common shares outstanding	6,804,035	6,804,035	8,618,090	8,618,090
Income (loss) from continuing operations..	$(16,887,123)	$(16,887,123)	$1,060,072	$1,060,072
Adjustments for:				
Accretion/Accrual of Series E Dividends	(58,313)	(58,313)	(2,059,587)	(2,059,587)
Interest on Subordinated Convertible Debt, net of income taxes	-	- (1)	-	- (1)
Adjusted Income (Loss) from continuing operations	$(16,945,436)	$(16,945,436)	$(999,515)	$(999,515)
Income (loss) from discontinued operations..	$(510,598)	$(510,598)	-	-
Net Income (loss) before extraordinary item.......	$(17,456,034)	$(17,456,034)	$(999,515)	$(999,515)
Extraordinary item.........			$ 1,913,266	$ 1,913,266
Net income (loss)..........	$(17,456,034)	$(17,456,034)	$(2,912,781)	$(2,912,781)
Net Income (loss) per share:				
Income (loss) per share from:				
Continuing operations ...	$(2.49)	$(2.49)	(.12)	(.12)
Discontinued operations..	$(. 08)	$(.08)	-	-
Extraordinary item.......			(.22)	(.22)
Net Income (loss) per share..	$(2.57)	$(2.57)	$(.34)	$(.34)

---

(1) Item excluded because its inclusion in calculation would be anti-dilutive.

(2) Represents options granted in September, 1991 which are considered cheap stock for the purposes of this calculation.

0 28758
Q 35712

Original - Manually signed

10

92 14 1331

RECD S.E.C.
MAY 5 1992

5/8

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549

FORM 10-Q

(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For quarterly period ended March 31, 1992

OR

For the transition period from ____ to ____

P92.2267

( ) TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 0-18204

AJAY SPORTS, INC.
(Exact name of registrant as specified in its charter)

Delaware	39-1644025
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1501 E. Wisconsin Street, Delavan, Wisconsin	53115
(Address of principal executive offices)	(Zip Code)

(414) 728-5521
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such report), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No ____

Number of shares of common stock outstanding at May 4, 1992: 8,045,342

Total number of sequentially marked pages 10.

PROCESSED BY
10 — 10 1A
MAY 8 1992

13Q

Microfilmed by
Q-Data Corp. - St. Petersburg, FL

Part I. Financial Information

Item 1. Financial Statements

AJAY SPORTS, INC. AND SUBSIDIARY

Consolidated Balance Sheets
(Unaudited)

ASSETS	March 31, 1992	December 31, 1991
Current assets:		
Cash and cash equivalents	$ 253,000	$ 11,000
Trade accounts receivable	5,142,000	2,839,000
Inventories	7,578,000	7,622,000
Prepaid expenses and other current assets	83,000	71,000
Total current assets	13,056,000	10,543,000
Machinery and equipment	60,000	60,000
Less accumulated depreciation	9,000	7,000
Net machinery and equipment	51,000	53,000
Investments in and advances to affiliates	852,000	1,005,000
Other assets	191,000	191,000
Total assets	$ 14,150,000	$ 11,792,000
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable	1,574,000	1,952,000
Accrued expenses	569,000	666,000
Due to affiliates	1,087,000	971,000
Total current liabilities	3,230,000	3,589,000
Bank loan	7,469,000	5,304,000
Long term debt	-	2,950,000
Total liabilities	10,699,000	11,843,000
Stockholder's equity (deficit)		
Preferred stock	2,950,000	-
Common stock	80,000	83,000
Common stock subscribed	130,000	-
Additional paid-in capital	3,712,000	3,848,000
Accumulated deficit	(3,374,000)	(3,781,000)
Unamortized compensation expense	(47,000)	(201,000)
Total stockholders' equity (deficit)	3,451,000	(51,000)
Total liabilities & stockholders' equity (deficit)	$ 14,150,000	$ 11,792,000

AJAY SPORTS, INC. and SUBSIDIARY
Consolidated Statements of Operations
(Unaudited)

	Three Months Ended March 31,	
	1992	1991
Net sales	$ 7,539,000	$ 5,841,000
Cost of sales	5,995,000	4,600,000
Gross profit	1,544,000	1,241 000
Selling, general and administrative expenses	761,000	863,000
Operating income	783,000	378,000
Non-operating expenses, net:		
Interest income	(13,000)	(65,000)
Interest expense, net	407,000	261,000
Other, net	(23,000)	(10,000)
Total non-operating expense	371,000	186,000
Income before income taxes and extraordinary item	412,000	192,000
Income tax expense	(165,000)	(75,000)
Income before extraordinary item	247,000	117,000
Extraordinary item - utilization of net operating loss carryforward	160,000	75,000
Net earnings	$ 407,000	$ 192,000
Earnings per common and common equivalent share (primary and fully dilutive):		
Income before extraordinary item	$ 0.03	$ 0.01
Extraordinary item	0.02	0.01
Net earnings	$ 0.05	$ 0.02
Weighted average common and common equivalent shares outstanding:		
Primary	8,790,000	8,301,000
Fully dilutive	8,832,000	8,301,000

AJAY SPORTS, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows

Three months ended March 31, 1992 and 1991
(Unaudited)

	Three Months Ended March 31,	
	1992	1991
Cash flows from operating activities:		
Net earnings	$ 407,000	$ 192,000
Adjustments to reconcile net cash provided by operating activities:		
Depreciation and amortization	17,000	62,000
Other	-	(65,000)
Change in assets and liabilities:		
Trade accounts receivable, net	(2,303,000)	(2,314,000)
Inventories	44,000	(390,000)
Prepaid expenses and other current assets	(12,000)	(39,000)
Accounts payable	(378,000)	222,000
Accrued expenses	(97,000)	40,000
Due to affiliates	16,000	247,000
Net cash used in operating activities	(2,306,000)	(2,045,000)
Cash flows from investing activities:		
Capital expenditures	-	(10,000)
Investments in and advances to affiliates	153,000	(66,000)
Net cash provided by (used in) investing activities	153,000	(76,000)
Cash flows from financing activities:		
Proceeds from note payable to affiliate and common stock subscribed	230,000	-
Net change in bank loan	2,165,000	2,105,000
Net cash provided by financing activities	2,395,000	2,105,000
Net increase (decrease) in cash and cash equivalents	242,000	(16,000)
Cash and cash equivalents at beginning of period	11,000	22,000
Cash and cash equivalents at end of period	$ 253,000	$ 6,000
Supplemental disclosures of cash flow information:		
Cash paid for interest	$ 338,000	$ 228,000
Cash paid for income taxes	5,000	-
Interest receivable converted into additional advances to affiliate	-	65,000

Notes to Consolidated Financial Statements

Note 1. Footnote Disclosure

Footnote disclosures which would substantially duplicate the disclosures contained in the Ajay Sports, Inc. and Subsidiary (the Company) Annual Report on Form 10-K for the year ended December 31, 1991, have been condensed or omitted. These unaudited consolidated financial statements should be read in connection with the audited consolidated financial statements and notes thereto included in Company's Annual Report on Form 10-K.

The unaudited consolidated financial statements reflect all adjustments which are, in the opinion of management, necessary to fairly state the results for the periods presented and to present fairly the financial position of the Company as of March 31, 1992.

Note 2. Inventories

At March 31, 1992 inventories consisted of the following:

Raw Materials	$ 4,716,000
Work in Process	722,000
Finished Goods	2,140,000
	$ 7,578,000

Note 3. Stockholders' Equity

In March 1992 the Company authorized a private placement to offer for sale up to a total of 8 units (the "Units") on a "best-efforts" basis, at $85,000 per Unit, for an aggregate offering of up to $680,000, (the "Private Offering"), each Unit consisting of 100,000 shares of common stock, and 50,000 warrants (the "Warrants"), each Warrant exercisable to purchase one share of common stock at $1.00 per share for a period of one year; however, if the average market price of the common stock between August 17 and August 28, 1992 is below $2.00 per share, the exercise price of the Warrants will be reduced to 50% of the market price of the common stock on August 31, 1992 (the "Reset Provision"), but if during any five consecutive days between May 1 and August 14, 1992 the bid price of the common stock is $2.50 per share or higher, the Reset Provision will be terminated. As of April 15, 1992, 1.5 units for $130,000 had been subscribed for. The Company plans to repay loans totaling $655,000 granted in 1992 by Roadmaster Industries and other affiliates with the proceeds from the private offering. $555,000 of such loans are due on demand and bear interst at 10%. $100,000 of such loans are due in 90 days and bear interest at 8.5%.

In January 1991 Ajay entered into an employment agreement with an officer. In connection with this agreement, the officer was issued an aggregate of 350,000 shares of the Company's common stock. During the quarter ended March 31, 1992 the Company recorded a reduction of capital stock outstanding, additional paid-in capital and unamortized compensation expense of $3,000, $136,000 and $139,000, respectively. This represented two-thirds of the 350,000 shares, which were forfeited upon termination of employment.

Note 4. Subsequent Events

Effective March 31, 1992 the remaining $2,950,000 principal amount of the amended Subordinated Note held by Roadmaster Corporation was converted into 29,500 shares of Series A 8% Cumulative Convertible Preferred Stock of the Company (the "Series A Preferred Stock"). The Series A Preferred Stock has a liquidation preference of $100 per share, plus any accrued but unpaid dividends. Cumulative dividends of 8% per annum accruing from the date of issuance are payable when, as and if declared by the Board of Directors, but in no event before January 1, 1994. The Series A Preferred Stock is convertible into shares of Common Stock at the option of the holder beginning January 1, 1993 at $2.50 per share and beginning January 1, 1994 at $3.00 per share. The Series A Preferred Stock is redeemable at any time solely at the option of the Company at $100 per share plus accrued and unpaid dividends but may be redeemed prior to January 1, 1994 only if and to the extent the Company acquires new equity capital after April 15, 1992.

A shareholder loaned the Company $100,000 at 8.5% interest due in 90 days. In April 1992 Equitex, Inc. and Roadmaster Industries, Inc. loaned $105,000 and $450,000, respectively to the Company. The loans bear interest at 10% and are due on demand.

On April 14, 1992 the Company entered into an amended lending arrangement with Security Pacific (the "Total Credit Facility") which provides Ajay with a separate lending arrangement. Under the Total Credit Facility, Ajay has a revolving credit facility of up to $10,000,000 for a 21-month term, based on eligible accounts receivable and eligible raw material and finished goods inventories, and a seasonal inventory subline of up to $500,000. In addition, Ajay has a letter of credit facility of up to $2.5 million for the purchase of finished goods and component parts inventory for a 21-month term which requires a fee of 1.5% per annum on outstanding letters of credit. The revolving credit facility and the seasonal subline facility bear interest at 2% and 3%, respectively, above the bank's prime lending rate. The revolving credit facility is payable as inventories are sold and receivables are collected and may not exceed 85% of eligible accounts receivable and 60% of eligible inventories. If the outstanding borrowings are prepaid, Ajay will incur a 2% prepayment fee. The Total Credit Facility contains covenants related to maintaining minimum adjusted net worth and certain ratios, and places restrictions on future business combinations, compensation, certain investments, and capital expenditures. The Total Credit Facility prohibits the payment of dividends by Ajay to the Company. The borrowings are secured by all of Ajay's assets and certain stock owned by Equitex, Inc. and are guaranteed by the Company and Equitex, Inc.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

Financial Condition - At March 31, 1992 the Company had working capital of $9,826,000 as compared with $6,954,000 at December 31, 1991. The ratio of current assets to current liabilities at March 31, 1992 was 4.0 to 1.0 compared with 2.9 to 1.0 at December 31, 1991. Working capital was provided by the increase in accounts receivable and inventory.

At March 31, 1992 the Company had increased its long term borrowings by $2,165,000 since December 31, 1991. This was primarily due to seasonal increases in accounts receivable. Effective March 31, 1992 the remaining amount of the Company's amended Subordinated Note was converted into 29,500 shares of Series A 8% Cumulative Convertible Preferred Stock. See "Notes to Consolidated Financial Statements".

Liquidity - At March 31, 1992 Ajay had $7,469,000 outstanding under a $10,500,000 revolving line of credit. At March 31, 1992 Ajay had unutilized credit available under the lending arrangement of approximately $223,000. On April 14, 1992 the Company entered into an amended lending arrangement with Security Pacific (the "Total Credit Facility") which provides Ajay with a separate lending arrangement. Under the Total Credit Facility, Ajay has a revolving credit facility of up to $10,000,000 for a 21-month term, based on eligible accounts receivable and eligible raw material and finished goods inventories, and a seasonal inventory subline of up to $500,000. In addition, Ajay has a letter of credit facility of up to $2.5 million for the purchase of finished goods and component parts inventory for a 21-month term which requires a fee of 1.5% per annum on outstanding letters of credit. The revolving credit facility and the seasonal subline facility bear interest at 2% and 3%, respectively, above the bank's prime lending rate. The revolving credit facility is payable as inventories are sold and receivables are collected and may not exceed 85% of eligible accounts receivable and 60% of eligible inventories. If the outstanding borrowings are prepaid, Ajay will incur a 2% prepayment fee. The Total Credit Facility contains covenants related to maintaining minimum adjusted net worth and certain ratios, and places restrictions on future business combinations, compensation, certain investments, and capital expenditures. The Total Credit Facility prohibits the payment of dividends by Ajay to the Company. The borrowings are secured by all of Ajay's assets and certain stock owned by Equitex, Inc. and are guaranteed by the Company and Equitex, Inc. The Company believes that its asset-based lending arrangement provides adequate liquidity for the Company to meet its obligations in the foreseeable future. Management believes that the revolving credit facility and anticipated cash flows are adequate to support its future operations. Effective March 31, 1992 the remaining $2,950,000 principal amount of the amended Subordinated Note held by Roadmaster was converted into 29,500 shares of Series A 8% Cumulative Convertible Preferred Stock of the Company (the "Series A Preferred Stock"). The Series A Preferred Stock has a liquidation preference of $100 per share, plus any accrued but unpaid dividends. Cumulative dividends of 8% per annum accruing from the date of issuance are payable when, as and if declared by the Board of Directors, but in no event before January 1, 1994. The Series A Preferred Stock is convertible into shares of Common Stock at the option of the holder beginning January 1, 1993 at $2.50 per share and beginning January 1, 1994 at $3.00 per share. The Series A Preferred Stock is redeemable at any time solely at the option of the Company at $100 per share plus accrued and unpaid dividends but may be redeemed prior to January 1, 1994 only if and to the extent the Company acquires new equity capital after April 15, 1992. See "Notes to Consolidated Financial Statements".

In April 1992 Equitex, Inc. and Roadmaster Industries, Inc. loaned $105,000 and $450,000, respectively to the Company. The loans bear interest at 10% and are due on demand. In addition, a shareholder loaned the Company $100,000 at 8.5% interest due in 90 days. In March 1992 the Company authorized a private placement to offer for sale up to a total of 8 units (the "Units") on a "best-efforts" basis, at $85,000 per Unit, for an aggregate offering of up to $680,000, (the "Private Offering"), each Unit consisting of 100,000 shares of common stock, and 50,000 warrants (the "Warrants"), each Warrant exercisable to purchase one share of common stock at $1.00 per share for a period of one year; however, if the average market price of the common stock between August 17 and August 28, 1992 is below $2.00 per share, the exercise price of the Warrants will be reduced to 50% of the market price of the common stock on August 31, 1992 (the "Reset provision"), but if during any five consecutive days between May 1 and August 14, 1992 the bid price of the common stock is $2.50 per share or higher, the Reset Provision will be terminated. As of April 15, 1992, 1.5 units for $130,000 had been subscribed for. The Company plans to repay the above loans with the proceeds from the Private Offering. See "Notes to Consolidated Financial Statements".

Results of Operations - During the quarter ended March, 31, 1992 the Company had net sales of $7,539,000 compared to $5,841,000 for the same period in 1991. Sales of golf products, the primary focus of the Company's business, increased 34% in the first quarter of 1992 compared with the comparable period of the previous year. This principally was a result of a strong performance in golf glove and golf bag sales.

Gross profit for the three months ended March 31, 1992 expressed as a percent of net sales, decreased slightly to 20.5% compared to 21.2% for the same period in 1991. The slight gross profit percent decrease was a result of a change in the mix of products sold.

Operating income for the first quarter of 1992 was $783,000, an increase of $405,000 compared to the first quarter of 1991. The increase is a direct result of maintaining gross profits on increased sales and significant reduction in the percentage of selling, general and administrative expenses. Selling, general and administrative expenses decreased $102,000 for the three months ended March 31, 1992 compared to 1991. Selling, general and administrative expenses expressed as a percent of net sales were 10.1% for the first quarter of 1992 versus 14.8% for 1991. The principal reason for the reduction was attributable to reduction of certain fixed operating costs in personnel, advertising programs and other related operating costs.

Interest expense, expressed as a percent of net sales, was 5.4% for the first quarter of 1992 compared to 4.5% for the first quarter of 1991. Non-operating expense (primarily interest), increased $185,000 from the first quarter of 1991 to the first quarter of 1992, resulting from a temporary increase in letter of credit financing to finance significant first quarter inventory purchases.

As a result of the above, the net income for the first quarter ending March 31, 1992 was $407,000, compared to $192,000 for the same period last year.

Part II. OTHER INFORMATION

Item 3. Defaults Upon Senior Securities

a) The Company was in default in the amount of $2,950,000 under its Subordinated Note. During the quarter ended March 31, 1992 the Subordinated Note was converted into Series A 8% Cumulative Convertible Preferred Stock. See "Management Discussion and Analysis of Financial Condition and Results of Operation - Liquidity".

Item 6. Exhibits and Reports on Form 8-K

a) Exhibits - None

b) Reports on Form 8-K - None

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AJAY SPORTS, INC.
Registrant

DATE: May 4, 1992

BY:
Joseph W. Hovorka
President, Treasurer, Chief
Financial Officer and Director

0 32387

① 35708

92 15 1529

RECD S.E.C.
MAY 15 1992
153

14

E92-2267

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended March 31, 1992

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended March 31, 1992 Commission File Number 0-11078

The American Education Corporation
(Exact name of registrant as specifiedin its charter)

Colorado	84-0838184
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer IdentificationNo.)

7506 N. Broadway Ext., Suite 505, Oklahoma City, OK 73116
(Address of principal executive offices) (Zip Code)

(Registrant's telephone number, including area code) (405) 840-6031

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No __

APPLICABLE ONLY TO CORPORATE ISSUERS

Indicate the number of shares outstanding of each of the issuer's class of cmmon stock, as of the latest practicable date.

Class: Common Stock, $.025 par value

Number of shares outstanding as of May 13, 1992: 3,178,700

PROCESSED BY
MAY 18 1992
14 — 14 / 1A
/ 22

Microfilmed by
Q-Data Corp. - St. Petersburg, FL

THE AMERICAN EDUCATION CORPORATION

INDEX

		Page No.
PART I - FINANCIAL INFORMATION		
Item 1	Consolidated Balance Sheets March 31, 1992 and December 31, 1991	3,4
	Consolidated Statements of Operations For the Three Months Ended March 31, 1992 and the Three Months Ended March 31, 1991	5
	Consolidated Statements of Cash Flows For the Three Months Ended March 31, 1992 and the Three Months Ended March 31, 1991	6
	Notes to Consolidated Financial Statements	7,8
Item 2	Management's Discussion and Analysis of Financial Condition and Results of Operations	9-12
PART II - OTHER INFORMATION		13
SIGNATURE PAGE		14

THE AMERICAN EDUCATION CORPORATION

CONSOLIDATED BALANCE SHEETS

	March 31, 1992	December 31, 1991
LIABILITIES AND STOCKHOLDER'S EQUITY		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	$ 346,215	$ 387,896
Notes payable, current portion	219,420	219,940
Total current liabilities	565,635	607,836
LONG-TERM NOTES PAYABLE	355,000	125,000
STOCKHOLDERS' EQUITY:		
Preferred Stock - .001 par value; 50,000,000 shares authorized; 30,000,000 shares issued and outstanding at March 31, 1992 and December 31, 1991	30,000	30,000
Common Stock - $.025 par value; 15,000,000 shares authorized; 3,178,000 and 1,945,265 shares issued and outstanding at March 31, 1992 and December 31, 1991	79,260	79,260
Additional paid- on capital	2,784,281	2,784,281
Accumulated deficit	(2,193,375)	(2,285,483)
Total stockholders' equity	700,166	608,058
TOTAL	$ 1,620,801	$ 1,340,894

See notes to consolidated financial statements.

THE AMERICAN EDUCATION CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended March 31, 1992	Three Months Ended March 31, 1991
REVENUES:		
Software	$ 429,439	$ 233,170
Video	103,589	184,106
	533,028	417,276
EXPENSES:		
Production	235,860	208,845
Selling	91,478	78,568
General & administrative	113,582	111,902
TOTAL	440,920	399,315
NET INCOME (LOSS)	$ 92,108	$ 17,961
NET INCOME (LOSS) PER COMMON SHARE	$ .028	$ .008

See notes to consolidated financial statements.

THE AMERICAN EDUCATION CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For The Three Months Ended	
	March 31, 1992	March 31, 1991
OPERATING ACTIVITIES:		
Net Income (Loss)	$ 92,108	$ 17,961
Adjustments to reconcile net income to net cash provided from operating activities:		
Depreciation and amortization	39,145	18,587
Changes in operating assets and liabilities net of effects from purchase of American Educational Computer, Inc.:		
Accounts receivable	(192,026)	(137,078)
Inventories	71,969	64,048
Prepaid expenses and other assets	8,511	(1,687)
Accounts payable and accrued liabilities	(38,315)	(12,070)
Net cash provided (used) in operating activities	(18,608)	(50,239)
INVESTING ACTIVITIES:		
Purchase of property & equipment	-	(8,964)
Investment in product costs	-	(4,326)
Net cash used in investing activities	-	13,290
FINANCING ACTIVITIES:		
Proceeds from note payable	20,000	60,000
Net cash provided (used) in financing activities	20,000	60,000
NET INCREASE (DECREASE) IN CASH AND CERTIFICATES OF DEPOSIT	1,392	(3,529)
CASH AND CERTIFICATES OF DEPOSIT, Beginning of period	-	8,513
CASH AND CERTIFICATES OF DEPOSIT, End of period	$ 1,392	$ 4,984

See notes to consolidated financial statements.

THE AMERICAN EDUCATION CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 1992 AND MARCH 31, 1991

1. BASIS OF PRESENTATION:

The interim financial statements at March 31, 1992, and for the three months ended March 31, 1992, are unaudited, but include all adjustments which the Company considers necessary for a fair presentation. The December 31, 1991, balance sheet was derived from the Company's audited financial statements.

The accompanying unaudited financial statements are for interim periods and do not include all disclosures normally provided in annual financial statements, and should be read in conjunction with the Company's audited financial statements. The accompanying unaudited interim financials for the three months ended March 31, 1992, are not necessarily indicative of the results which can be expected for the entire fiscal year.

2. LOAN AGREEMENTS:

On January 9, 1991, the Company entered into a loan agreement ("Agreement") with John Garber ("Garber") whereby the Company borrowed $110,000, which amount may be converted into shares of the Company's common stock at the option of Garber at an exchange rate of $.1346 (post split) per share. Fifty thousand dollars was advanced pursuant to this Agreement on the same date, with the remainder to be paid to the Company in $5,000 monthly installments, which began February 15, 1991, and continued through January 15, 1992. Terms of the Agreement provide for quarterly interest payments at 12% per annum, with the principal and remaining accrued and unpaid interest due and payable on January 15, 1993. As of March 31, 1992, a total of $110,000 had been advanced pursuant to this Agreement.

On April 15, 1991, the Company entered into a second loan agreement with Garber whereby the Company borrowed an additional $125,000, which amount was advanced on this same date. The terms of this note, which also includes the conversion privilege, are the same as those provided for in the January 9, 1992 agreement. Effective June 15, 1991, Mr. Garber converted $94,480 of the outstanding loan balance into 701,931 shares (post split) of common stock in the Company.

On January 2, 1992, the Company entered into an additional loan agreement with Mr. Garber whereby the Company borrowed an additional $15,000, such amount advanced on this same date. This note also contains a conversion privilege and matures with the earlier loan agreements.

3. COMMON STOCK

Upon the acquisition of the assets of AEC, the Company authorized issuance of 120,000 (post split) shares of common stock to an officer of the Company for services rendered with an option to purchase another 120,000 or three percent (3%) of the outstanding shares, whichever is greater, for $.1337 per share (post split). These options were executed on May 15, 1991. Pursuant to a product license agreement, the Company issued 150,000 share of its common stock, in lieu of cash, to the licensor as compensation for access to the product. Further, the Company issued an additional 68,700 shares of its common stock to AEC Acquisitions in lieu of accrued interest of $34,350 otherwise due related to the $600,000 Convertible Note (See Item 2).

4. PREFERRED STOCK:

On August 26, 1991, the Company issued to AEC Acquisitions, Inc. 30,000,000 shares of preferred stock, upon conversion of the $600,000 Convertible Note executed upon the acquisition of the assets of AEC (See item 2).

5. SUBSCRIPTIONS RECEIVABLE:

On March 31, 1992, the Company received subscriptions of $200,000 to its Convertible Subordinated Debt offering. This program offers for investment a minimum of $50,000 and a maximum of $300,000 12% Convertible Subordinated Notes due December 31, 1994. The notes will bear interest at the rate of 12% per annum, payable quarterly beginning June 30, 1992. On April 15, 1992, the Company received $100,000 in funding from the subscribed amount.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Liquidity and Capital Resources - Asset Purchase Agreement

On January 8, 1991, the Company purchased substantially all of the assets of American Educational Computer, Inc. ("AEC"), and assumed specific trade accounts payable and other accrued liabilities related to AEC's current business. The purchase price of $990,000 was paid in the following manner:

(1) $190,000 cash payment deposited in escrow as of December 31,1990;

(2) $200,000 note payable at 9% interest, with interest only due quarterly through October 1, 1991, and quarterly principal and interest payments of $50,000 plus accrued interest thereafter, with final payment due on July 1, 1992; and

(3) $600,000 convertible note payable at 9% interest, with principal and accrued interest payable in full July 1, 1991, manditorily convertible into 30,000,000 shares of non-voting preferred stock upon the Company's authorization of such issuance.

Management has considered these transactions which have required substantial utilization of funds, as well as anticipated operating requirements for the near term. Additional working capital beyond that currently available to the Company will be required to expand operations. Management is, therefore, considering options available in providing such funding, including bank debt financing,convertible debt issuance and equity financing through the sale of the Company's securities.

Liquidity and Capital Resources

For the quarter ended March 31, 1992, the Company's working capital position (current assets minus current liabilities) decreased by approximately $99,000 from the same period in fiscal 1990. This decrease is the result of the Company's short-term working capital credit line, secured during July of 1991 and the reclassification of certain current assets at December 31, 1991 into long-term assets. The working capital position has, however, for the quarter ended March 31, 1992, increased by approximately $355,000 from December 31, 1991. This increase is attributable to an increase in accounts receivable balances related to improved sales of the Company's new school products, as well as subscriptions to a Convertible Debt Program. The Company expects to realize the cash proceeds of the Convertible Debt Program in the second quarter of fiscal 1992 (See Note 5).

The Company continues to view accounts receivable and salable inventory as its principle measures of liquidity. The Company is planning to supplement cash from operations through the aforementioned Convertible Debt Program and is considering the need to further expand its existing bank credit line. During July of 1991, the Company entered into a revolving credit line with a local bank as a source for short-term working capital. This line originally in the amount of $75,000 was expanded to $150,000 in November of 1991 and will mature in June of 1992. The Company is in compliance with all covenants of the bank note and management believes that this note will be renewed prior to maturity.

The seasonal nature of the Company's business creates peak demand for working capital during the summer and early fall months that may not be supplied by operations in this time period. Such a demand has been further impacted by a slower than expected fourth quarter of 1991, as a result of delays in the completion of new software for the school market. Working capital is required during this time for activities such as developing and licensing products and initiating marketing and promotional programs for the remainder of the year. As noted, management is evaluating the need to expand existing banking relationships to better address the working capital requirements for this period, as well as actively planning additional financing programs.

Quarter Ended March 31, 1992 As Compared To The Quarter Ended March 31, 1991

Net revenues for the three-month period ended March 31, 1992, increased by approximately $115,753, or $28% over the comparable quarterly period in 1991. This increase is due primarily to the significant sales of the Company's newly developed school products, Mathematics Skills Development Program (MSDP) and Language Skills Development Program (LSDP), which were released early in the first quarter of 1992. The introduction of these products has allowed the Company to expand the physical number of national, and regional distributors representing the Company's products. Management also believes the new products and the expanded distributor network also helped to increase total sales of all of the Company's products to schools during the quarter ended March 31, 1992. This increase reflects, what management believes, is a positive marketplace reception to its existing and newly developed software products and management anticipates that this trend towards improved revenues should continue for the duration of 1992.

Production expense, for the quarter ended March 31, 1992, which includes product materials and overhead costs, increased by approximately $27,015, or 13.0% over the same period during 1991. This change in expense levels is due to increased 1992 sales volume over the same quarterly period in 1991. While production expenses associated with sales increased in real dollar terms over the period due to the higher level of sales, expenses decreased as a percentage of total sales. This favorable change is due to a larger percentage of the higher gross margin of the Company's new school products (LSPD and MSPD), cost controls and improved purchasing practices. As a result of the above factors, the Company also experienced improved gross margins on sales for the first quarter of 1992.

General and administrative expenses for the period ended March 31, 1992 increased by approximately $1,680, or 1.0% over the comparable three month period in 1991. During the 1992 quarter versus the 1991 quarter, the Company spent more funds that were directly related to ongoing operations and the direct development of the business. The Company was able to focus financial resources in this category of expenditure as a result of lower interest costs and the absence of certain, one-time costs associated the asset purchase which occurred in the comparable 1991 quarterly period.

Selling expenses include salaries and commissions related the sales of the Company's software and video products. Such expenses for the quarter ended March 31, 1992, increased by approximately $12,910, or 16.0% over the same period in 1991. This increase is related to the aforementioned expanded sales and marketing efforts implemented by the Company in the introduction of the new school products early in the first quarter of 1992 and the expansion of the Company's distribution network.

The Company's net income was $92,108 for the three month period ended March 31, 1992, reflecting an improvement of $74,147, or 512.8% over the same quarterly period in 1991. The Company has a net operating loss carry forward of $2,193,375 and, accordingly, does not anticipate federal, or state income tax expense consequences to be associated with earnings for the 1992 quarter This improvement is the direct result of the previously described changes in the Company's product sales mix for the 1992 quarter. During the 1992 quarter, approximately 80.0% of total revenues were comprised of sales from the Company's high margin software and newly released school software products. The product sales mix for the same quarter in 1991 reflected software revenues that represented approximately 55.0% of the Company's total revenues for this quarter, while educational video products represented approximately 45.0% of revenues. It is management's belief that this product sales mix trend, where software is the dominant source of revenues, is likely to continue for the remainder of 1992. During the quarter ended March 31, 1992, the Company's educational video product line did not achieve its plan expectations, primarily as a result of the credit impairment of one of its important distributors very early in the first quarter of 1992. During the quarter the Company collected all funds at risk and expects to reestablish relationships, or to identify alternate methods of reaching end users formerly served by this distributor. This educational video segment of the Company's business is scheduled additional investment throughout 1992 and management believes that this product area is a source for future growth and profitability for the Company.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

Omitted from this report as inapplicable.

Item 2. Changes in Securities

Omitted from this report as inapplicable.

Item 3. Default Upon Senior Securities

Omitted from this report as inapplicable.

Item 4. Submission of Matters to Vote of Securities Holders

Omitted from this report as inapplicable.

Item 5. Other Information

Omitted from this report as inapplicable.

Item 6. Exhibits and Reports on Form 8-K

Omitted from this report as inapplicable.

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned.

THE AMERICAN EDUCATION CORPORATION

May 13, 1992 By: ____________________
Jeffrey E. Butler
Chief Executive Officer

Douglas G. Franklin

May 13, 1992 By: ____________________
Douglas G. Franklin
Chief Financial Officer

10

92 16 1871

0 21982

① 35679

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C., 20549

RECD S.E.C.
JUN 3 1992
183

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarter ended
March 31, 1992

Commission file No
33-10236

F92-2267

BAYWOOD INTERNATIONAL, INC.

(Formerly Baywood Financial, Inc.)
(Exact name of registrant as specified in charter)

Nevada (state of other jurisdiction of incorporation or organization)	77-6125664 (I.R.S. Employers Identification Number)
14950 N. 83RD Place, Suite 1 Scottsdale, AZ (Address of principal office)	85260 (Zip Code)

(602) 951-1734
Registrant's telephone number, including area code

same
Former Name, Former Address, and Former Fiscal Year, if changed since last report

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities and Exchange Act of 1934 during the preceding 12 months (or for such shorter periods that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES X NO___

As of March 31, 1992, there were 7,150,000 shares of Baywood International, Inc. common stock, $.001 par value outstanding.

PROCESSED BY
10-6-V
JUN 5 1992

Microfilmed by
Q-Data Corp. - St. Petersburg, FL

BEST COPY
AVAILABLE

BAYWOOD INTERNATIONAL, Inc.
and Wholly Owned Subsidiary
(A Development Stage Company

CONSOLIDATED BALANCE SHEET
(Unaudited)

	Three Months Ended March 31, 1992	Year Ended December 31, 1991
ASSETS		
Current Assets:		
Cash	-0-	$ -0-
Prepaid Expenses	-0-	-0-
Total Current Assets	$ -0-	$ -0-
Other Assets:		
Organizational costs, net of accumulated amortization	0	38
MARKETING RIGHTS	158,333	158,333
TOTAL OTHER ASSETS	$ 158,333	$ 158,371
TOTAL ASSETS	158,333	158,371
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:	$ -0-	$ -0-
Shareholders' Equity		
Common stock, par value $.001 Authorized 50,000,000 shares Issued & Outstanding 7,150,000 shares	$ 7,150	$ 6,950
Additional Paid-In capital	225,250	225,250
Accumulated deficit during development state	(74,067)	(74,029)
TOTAL STOCKHOLDERS' EQUITY	158,333	158,371
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 158,333	$ 158,371

BAYWOOD INTERNATIONAL, Inc.
and Wholly Owned Subsidiary
(A Development Stage Company)

CONSOLIDATED STATEMENT OF OPERATIONS
(Unaudited)

	Three Months Ended March 31, 1992	Three Months Ended March 31, 1991
Revenues	$ -0-	$ -0-
General and administrative expenses	-0-	-0-
Amortization expense	38	56
TOTAL EXPENSES	38	56
NET LOSS	$ (38)	$ (56)

BAYWOOD INTERNATIONAL, Inc.
and Wholly Owned Subsidiary
(A Development Stage Company)

CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited)

	Three Months Ended March 31, 1992	Year Ended December 31,1991
Cash Flows From Operating Activities:		
Net Income (Loss)	$ (38)	$ (56)
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by Operating activities:		
Amortization	38	56
	-0-	-0-
Cash Flows from Investing Activities:	-0-	-0-
Cash Flows from Financing Activities:	-0-	-0-
Net Increase (Decrease) in Cash	-0-	-0-
Cash, Beginning of Year	-0-	-0-
Cash, End of Period	$ -0-	$ -0-

Item 2. Management's Discussion and Analysis of financial Condition and Results of Operation.

The Company has engaged in no other operations during the quarter ended.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.
Not applicable

Item 2. Changes in Securities
Not applicable

Item 3. Default upon Senior Securities.
Not applicable

Item 4. Submission of Matters to a vote of Securitiy Holders.
Not applicable

Item 5. Other Information.
On March 20, 1992 the Company changed its name from Baywood Financial, Inc. to Baywood International, Inc. by amending its Articles of Incorporation a copy of which is enclosed as exhibit 3.0.

Item 6. Exhibits and Reports on Form 8-k.

3.0 Amended Articles of Incorporation reflecting name change from Baywood financial, Inc. to Baywood International, Inc., dated March 20, 1992.

SIGNATURES

Pursuant to the requirements of Section 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Baywood International, Inc.

Dated: May 29, 1992

By:
Georgia Aadland
Secretary, Baywood International, Inc.

Exhibit 3.0

Amended Articles of Incorporation reflecting name change

FILED
IN THE OFFICE OF THE
SECRETARY OF STATE OF THE
STATE OF NEVADA

MAR 20 1992

CHERYL A. LAU SECRETARY OF STATE
No. 40546-86

RECT: #41256 TS/MC
FILING FEE: $85.00
FILED BY: BAYWOOD INT'L. INC
C/O RON STOEKLEIN
14950 N. 83RD PLACE, STE. 1
SCOTTSDALE, AZ. 85260

CERTIFICATE OF AMENDMENT
OF
ARTICLES OF INCORPORATION
OF
BAYWOOD FINANCIAL, INC.

The undersigned do hereby declare and certify that:

(1) They are respectively the President and Secretary of Baywood Financial, Inc., a Nevada corporation.

(2) That this Certificate of Amendment was authorized and adopted by a majority of the Shareholders of the Corporation, and,

(3) That the Amendments contained herein were adopted, ratified, and approved by more than a majority of the shares outstanding of this corporation, there being 6,555,000 shares of the corporation issued and outstanding, and the following resolution being adopted by 4,100,000 shares voting in favor of with no objections at the Special Shareholders Meeting held the 10th day of January, 1992.

> "RESOLVED, That Article One of the Articles of Incorporation of the corporation be changed from Baywood Financial, Inc. to the new name of Baywood International, Inc. and that the officers of the Corporation are hereby empowered and directed to file with the Secretary of the State of Nevada, the requisite certificate setting forth the name change hereby authorized and effected."

The undersigned do further declare and certify that they have made and filed this Certificate of Amendment pursuant to the Resolutions adopted by the shareholders and Directors of this corporation as hereinabove stated.

We, Karl Rullich and Georgia Aadland, do hereby certify that we are respectively the duly elected President and the duly elected and qualified Secretary and keeper of the records and corporate seal of Baywood Financial, Inc., a corporation organized and existing under the laws of the State of Nevada, and that the above is a true and correct copy of a resolution duly adopted at a meeting of the Shareholders thereof, convened and held in accordance with law and the Bylaws of said Corporation on the 10th day of January, 1992 and that such resolution is now in full force and effect.

IN WITNESS THEREOF, we have affixed our names as President and as Secretary of the Corporation this ~~15th~~ 16 day of March, 1992.

Karl H. Rullich
Karl Rullich, President

Georgia Aadland
Georgia Aadland, Secretary

IN WITNESS WHEREOF, the undersigned has placed his hand and seal this 16th day of March, 1992.

Karl H. Rullich

Georgia Aadland

The foregoing Amended Articles of Incorporation of Daywood Financial, Inc., was subscribed and sworn to before me this 16th day of March, 1992, by Karl Rullich and Georgia Aadland.

WITNESS my hand official seal.

OFFICIAL SEAL
LESA HINKLE
Notary Public - State of Arizona
MARICOPA COUNTY
My Comm. Expires Nov. 13, 1995

My commission expires: Nov. 13, 1995.

Lesa Hinkle
Notary Public

RECEIVED
MAR 20 1992
Secretary of State

STATE OF NEVADA
Department of
State

I hereby certify that this is a true and complete copy of the document as filed in this office.

DATED: MAY 27 1992

CHERYL A. LAU
Secretary of State

By Deborah Jennings

0 12934

92 14 9267

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Q 35707

14

G92-2267

FORM 10-Q

Quarterly Report Under Section 13 or 15(d)
of the Securities Exchange Act of 1934

For Quarter Ended **March 31, 1992** Commission File Number **33-12533-B**

THE COMMERCE GROUP, INC.
(Exact name of registrant as specified in its charter)

Massachusetts	**04-2599931**
(State or other jurisdiction of Incorporation)	(IRS Employer Identification No.)

211 Main Street Webster, Massachusetts	**01570**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: **(508) 943-9000**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No___

As of May 8, 1992, the number of shares outstanding of the registrant's common stock was 9,446,301.

430

PROCESSED BY
14-14-1
MAY 19 1992

BEST COPY AVAILABLE

Microfilmed by
Q-Data Corp. - St. Petersburg, FL

The Commerce Group, Inc.

Table of Contents

Page No.

Part I - Financial Information

Consolidated Balance Sheets at March 31, 1992 and December 31, 1991 3

Consolidated Statements of Earnings for the Three Months Ended March 31, 1992 and 1991 4

Consolidated Statements of Cash Flows for the Three Months Ended March 31, 1992 and 1991 5

Notes to Unaudited Consolidated Financial Statements 6

Management's Discussion and Analysis 8

Part II - Other Information

Item 6
Exhibits and Reports on Form 8-K 14

Signature 14

THE COMMERCE GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Thousands of Dollars)

	March 31, 1992 (Unaudited)	December 31, 1991
ASSETS		
Investments:		
Fixed maturities, at amortized cost (market value: $354,767 in 1992 and $343,913 in 1991)	$ 348,980	$ 330,804
Equity securities, at market (cost: $26,067 in 1992 and $24,866 in 1991)	38,456	30,055
Mortgage loans on real estate (less allowance for possible loan losses of $4,136 in 1992 and $3,891 in 1991)	70,930	71,734
Collateral notes receivable	1,630	1,563
Investments in real estate	3,686	4,229
Total investments	463,680	438,385
Cash and cash equivalents	14,744	6,935
Accrued investment income	6,287	6,117
Premiums receivable (less allowance for doubtful receivables of $1,095 in 1992 and $1,073 in 1991)	104,814	58,068
Deferred policy acquisition costs	49,181	33,981
Property and equipment, net of accumulated depreciation	30,093	30,357
Due from reinsurers	53,593	-
Total assets	$ 722,392	$ 573,843
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Losses and loss adjustment expenses	$ 241,916	$ 228,657
Unearned premiums	207,625	124,154
Due to reinsurers	-	2,329
Income taxes payable	11,854	4,222
Deferred income	12,088	12,918
Other liabilities and accrued expenses	39,136	20,089
Total liabilities	512,617	392,369
Stockholders' equity		
Preferred stock, authorized 5,000,000 shares at $1.00 par value; none issued in 1992 and 1991	-	-
Common stock, authorized 20,000,000 shares at $.50 par value; issued and outstanding 9,550,000 shares in 1992 and 1991	4,775	4,775
Paid-in capital	28,945	28,945
Net unrealized gains on equity securities, net of income taxes of $4,212 in 1992 and $1,764 in 1991	8,178	3,425
Retained earnings	169,601	146,053
	211,499	183,198
Treasury stock, at cost, 103,699 shares in 1992 and 1991	(1,724)	(1,724)
Total stockholders' equity	209,775	181,474
Total liabilities and stockholders' equity	$ 722,392	$ 573,843

The accompanying notes are an integral part of these financial statements.

THE COMMERCE GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS
Three Months Ended March 31, 1992 and 1991
(Thousands of Dollars Except Per Share Data)
(Unaudited)

	1992	1991
Revenues		
Insurance premiums earned	$ 86,210	$ 65,000
Net investment income	8,928	7,292
Premium finance fees	3,499	2,802
Realized investment gains (losses)	(1,578)	1,230
Total revenues	97,059	76,324
Expenses		
Losses and loss adjustment expenses	52,460	42,341
Policy acquisition costs	25,680	17,622
Interest expense	-	39
Depreciation and amortization	866	777
Total expenses	79,006	60,779
Earnings before income taxes and extraordinary gain on asset transfer agreements	18,053	15,545
Income taxes	4,954	4,679
Earnings before extraordinary gain on asset transfer agreements	13,099	10,866
Extraordinary gain on asset transfer agreements (net of applicable income taxes of $5,383)	10,449	-
NET EARNINGS	$ 23,548	$ 10,866
Earnings per share before extraordinary gain on asset transfer agreements	$ 1.38	$ 1.14*
Earnings per share on extraordinary gain on asset transfer agreements	1.11	-
NET EARNINGS PER SHARE	$ 2.49	$ 1.14*
Weighted Average Number of Shares Outstanding	9,466,391	9,550,861*

* Restated to reflect stock split.

The accompanying notes are an integral part of these financial statements.

THE COMMERCE GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Three Months Ended March 31, 1992 and 1991
(Thousands of Dollars)
(Unaudited)

	1992	1991
Cash flows from operating activities:		
Net earnings	$ 23,548	$ 10,866
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Deferred policy acquisition costs	(15,200)	(11,179)
Premiums receivable	(46,746)	(42,286)
Losses and loss adjustment expenses	13,259	16,516
Unearned premiums	83,471	61,137
Other liabilities and accrued expenses	19,045	13,747
Deferred income	(830)	610
Due from/to reinsurers	(55,922)	(50,677)
Income taxes payable	7,632	1,118
Realized (gains) losses on sale of marketable securities	1,578	(2,310)
Other - net	(1,576)	1,112
Net cash provided by (used in) operating activities	28,259	(1,546)
Cash flows from investing activities:		
Proceeds from maturity of fixed maturities	1,959	2,191
Proceeds from sale of fixed maturities	1,207	67,728
Purchase of fixed maturities	(21,303)	(69,430)
Proceeds from sale of equity securities	1	1,663
Purchase of equity securities	(1,201)	(5,056)
Payments received on mortgage loans on real estate	1,215	587
Mortgage loans on real estate originated	(1,953)	(2,120)
Purchase of real estate development assets	(213)	(2,000)
Payments received on collateral notes receivable	18	8
Collateral notes receivable originated	(85)	(319)
Proceeds from sale of real estate development assets	500	-
Proceeds from sale of real estate acquired by foreclosures	213	229
Purchase of property and equipment for Company use	(831)	(402)
Proceeds from sale of property and equipment	23	13
Net cash used in investing activities	(20,450)	(6,908)
Cash flows from financing activities:		
Payments of notes payable	-	(1,663)
Repurchase of common stock	-	(5)
Net cash used in financing activities	-	(1,668)
Increase (decrease) in cash and cash equivalents	7,809	(10,122)
Cash and cash equivalents at beginning of period	6,935	26,967
Cash and cash equivalents at end of period	$ 14,744	$ 16,845

The accompanying notes are an integral part of these financial statements.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. The financial information has been prepared on a basis consistent with the accounting principles reflected in the audited consolidated financial statements for the year ended December 31, 1991. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been omitted pursuant to the Securities and Exchange Commission rules and regulations, although the Company believes the disclosures which have been made are adequate to make the information presented not misleading.

2. The information furnished includes all adjustments and accruals consisting only of normal recurring adjustments which are, in the opinion of management, necessary for a fair presentation of results for the interim periods. Certain 1991 account balances have been restated to conform to the current years' presentation.

3. The consolidated financial statements should be read in conjunction with the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission.

4. Neither the results of the three months ended March 31, 1992 nor comparison with the corresponding three months ended March 31, 1991 should be considered indicative of the results which may be expected for the year ending December 31, 1992.

5. During the first quarter, the Company recognized income before Federal income taxes of $15,832,000 ($10,449,000 after Federal income taxes) due to agreements signed during 1991 for the transfer of business to the Company of six companies withdrawing from the Massachusetts Private Passenger Auto Insurance Market effective January 1, 1992 (see page 9).

   The six companies were: New Hampshire Insurance Company (automobile and other personal lines); Utica Mutual Insurance Company; Home Insurance Company; The Continental Insurance Company; American Hardware Insurance Company; and, the Providence Washington Insurance Company.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

6. Disclosure of supplemental cash flow information:

	Three Months Ended March 31, 1992	Three Months Ended March 31, 1991
Cash paid during the period for:		
Federal and state income taxes	$6,386	$3,780
State premium and related taxes of insurance subsidiaries	4,240	4,656
Interest	-	34
Non-cash operating and investing activities:		
Real estate acquired by foreclosure	3,623	1,362
Proceeds from sale of real estate development assets	118	-

The Commerce Group, Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Three months ended March 31, 1992 compared to three months ended March 31, 1991

Net premiums written during the first three months of 1992 increased $43,545,000, or 34.5%, as compared to the same period in 1991. This increase was attributable to an increase in motor vehicle business of $44,619,000, or 39.1%, offset by a decrease in lines of business other than those related to motor vehicles. The increase in net premiums written in the motor vehicle line of business reflects the Company's continuing strategy in response to the reforms to the Massachusetts residual market mechanism, the pool of risks that insurers cede to The Commonwealth Automobile Reinsurers ("C.A.R."). The Company's intent is to increase its voluntary writings to the levels necessary and to write the types of business which will serve to mitigate any adverse impact which these rules and subsequent rule revisions would otherwise have on the Company.

Insurance premiums earned in the first quarter of 1992 increased $21,210,000, or 32.6%, over the same period in 1991. Motor vehicle premiums earned increased $22,416,000, or 44.5%, as a result of increases in 1991 and 1992 net written premiums and the 1991 and 1992 average increase in the private passenger automobile insurance rates of 6.8% and 6.9%, respectively.

Net investment income increased $1,636,000, or 22.4%, compared to the first three months of 1991, principally as a result of the following investment portfolio changes since March 31, 1991: a 42.3% increase in fixed maturities and an increase in excess of 100% in equity securities. Annualized net investment income as a percentage of total average investments was 7.9% during the three months ended March, 1992 as compared to 9.3% during the same period in 1991.

Realized investment losses totalled $1,578,000 during the first three months of 1992 as compared to realized gains of $1,230,000 for the same period in 1991. The realized losses in the first quarter of 1992 were primarily due to an increase in the allowance for possible loan losses. The realized gains in 1991 were primarily the result of sales of Government National Mortgage Association mortgage - backed bonds during the first quarter with the intent of repositioning the fixed maturity portfolio due to the impact of existing market conditions.

Losses and loss adjustment expenses incurred as a percentage of insurance premiums earned ("loss ratio") on a statutory basis, decreased to 61.0% for the three month period in 1992 as compared to 65.8% for the same period in 1991. The lower 1992 three month ratio was due to current year premium volume increases combined with the 1992 automobile rate increases and the impact of favorable claims experience.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Underwriting expenses on a statutory basis increased by 43.6% during the first quarter of 1992 compared to the same period in 1991. As a percentage of net premiums written, underwriting expenses were 24.6% during the first quarter of 1992 compared to 23.0% during the first three months of 1991. The increase in underwriting expenses was primarily impacted by the increase in net premiums written.

During the third and fourth quarters of 1991, the Company signed agreements (effective January 1, 1992), with six C.A.R. member companies, utilizing a C.A.R. Rule provision that was introduced in 1991. The change in regulations was initiated by Governor Weld's Administration, Secretary of Consumer Affairs Gloria Larson and Insurance Commissioner Kay Doughty, allowed companies who wished to leave the Massachusetts private passenger auto insurance market, to arrange for the transfer of that business to another carrier without the regulatory wrangles, expense or forfeiture of their licenses that were required under the previous regulations. The Company projects that these arrangements could increase the Company's 1992 business by as much as $25,000,000.

The six companies were: New Hampshire Insurance Company (automobile and other personal lines); Utica Mutual Insurance Company; Home Insurance Company; The Continental Insurance Company; American Hardware Mutual Insurance Company; and, the Providence Washington Insurance Company. The aggregate volume of business which the Company has agreed to write for the six companies totals approximately 30,000 policies, and would increase the Company's market share of Massachusetts auto insurance business by about 1%, from 12.2% to 13.2%. Under the agreements signed with the companies, the Company has agreed to write business generated by those companies' agents, although the agents have the option to place it with any company that their agency represents.

In consideration for taking on these companies' books of business, the Company received a one time net cash payment totalling $15,832,000. This resulted in a first quarter after tax income of $10,449,000 or $1.11 per share.

Net earnings increased $12,682,000 during the first three months of 1992 as compared to the same period in 1991 as a result of the factors mentioned above.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Liquidity and Capital Resources

The focus of the discussion of liquidity and capital resources is on the Consolidated Balance Sheets on page 3 and the Consolidated Statements of Cash Flows on page 5. Stockholders' equity increased by $28,301,000, or 15.6%, during the first quarter of 1992. Growth stemmed from $23,548,000 in net earnings combined with an increase in net unrealized gains on equity securities of $4,753,000. Total assets at March 31, 1992 increased by $148,549,000, or 25.9%, to $722,392,000 as compared to total assets of $573,843,000 at December 31, 1991. The increase in total assets was primarily due to cash provided by net premiums written and net investment income during the first quarter. The majority of this growth was utilized by increases of $46,746,000, or 80.5%, in premiums receivable, $53,593,000 in receivable from reinsurers and $25,295,000 in invested assets. The Company's bond portfolio is comprised of Government National Mortgage Association mortgage-backed bonds (38.6%) and municipal bonds (61.4%).

Mortgage loans on real estate increased $12,271,000, or 20.9%, during the twelve month period ended March 31, 1992 as compared to an increase of $3,081,000, or 5.5%, during the twelve month period ended March 31, 1991. The growth in mortgage loans was due to the downward trend of interest rates, which caused many homeowners to refinance their mortgage loans with the Company. The Company believes that having its entire mortgage loan portfolio on real estate located only in Massachusetts affords certain advantages through concentrated geographic marketing strategies. The ability and willingness of residential and commercial borrowers to honor their repayment commitments is generally dependent upon the level of overall economic activity and real estate values within Massachusetts.

A significant percentage of the Company's mortgage portfolio is comprised of loans to borrowers who do not qualify for conventional bank financing. Management does not believe that this fact poses any material risks to its operations, liquidity or capital resources due to its policy of only lending up to 80% of the appraised value of any collateralized real property in addition to the careful underwriting procedures which are employed before loans are committed to. Loans on which contractual payments, or parts thereof, are more than ninety days past due totalled $9,610,000 and $7,309,000 at March 31, 1992 and 1991, respectively. The Company's emphasis, since 1989, has been on the origination of first residential mortgage loans and is evidenced by the fact that approximately 75% of the mortgage portfolio matures after the year 2010 and in the concentration of loans which are less than five years old. Approximately 63% of the loan portfolio is made up of first residential loans.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

The Company has shifted a significant portion of its energy to the origination of secondary market quality residential loans. The Company originates these loans and processes them according to FNMA guidelines. After loans have closed, the Company sells these loans without recourse to secondary market investors, and is paid fees for its services. The Company does not service these loans. The Company anticipates that these activities will account for a majority of its mortgage business transacted during 1992.

The Company's liabilities totalled $512,617,000 at March 31, 1992 as compared to $392,369,000 at December 31, 1991. The $120,248,000, or 30.7%, increase was comprised primarily of a $13,259,000, or 5.8%, increase in losses and loss adjustment expenses and an increase of $83,471,000, or 67.2%, in unearned premiums and a $23,518,000 increase in all other liabilities. The primary reason for the changes in these liabilities was the normal increased first quarter level of personal automobile insurance business which the Company voluntarily wrote with the intent of mitigating any adverse impact of the C.A.R., rules which took affect during 1990, and subsequent revisions.

The primary sources of the Company's liquidity are funds generated from insurance premiums, premium finance fees, net investment income and maturing of investments as reflected in the Consolidated Statements of Cash Flows on page 5.

The Company was provided net cash from operating activities of $28,259,000 in 1992 as compared to the utilization of $1,546,000 in 1991. These cash flows were primarily impacted by the Company's increased first quarter writings of voluntary personal automobile insurance in response to the previously mentioned change in C.A.R. rules. The implementation of the Company's strategy with respect to these new rules impacted voluntary writings, claims and the net amounts due to reinsurers.

The net cash flows used in investing activities were primarily the result of net increases in fixed maturities, equity securities and mortgage loans. Investing and financing activities were funded by the cash provided by operating activities during 1992 and 1991.

Cash flows used in financing activities totalled $0 in 1992 and $1,668,000 in 1991.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

The Company's funds are generally invested in securities with maturities intended to provide adequate funds to pay claims without the forced sale of investments. At March 31, 1992, the Company held cash and cash equivalents of approximately $14,744,000. These funds provide sufficient liquidity for the payment of claims and other short-term cash needs. The Company relies upon dividends from its subsidiaries for its cash requirements. The ability of certain of these subsidiaries to pay cash dividends is restricted by contract and Massachusetts law. Any insurance subsidiary may pay such dividends as the Board of Directors may consider prudent out of any surplus remaining after deducting any non-performing assets, as well as any interest due and unpaid on any company property.

The Company's fixed maturity investments are carried at amortized cost, and as of March 31, 1992, the market value of the fixed maturities exceeded book value by $5,767,000. It is the Company's intention to hold its securities until maturity, although periodic sales are made from these investment portfolios to manage risks, including credit related concerns, matching of asset and liability cash flows, and to optimize tax planning.

Industry and regulatory guidelines suggest that the ratio of a property and casualty insurer's annual net written premiums to statutory policyholders' surplus should not exceed 3.00 to 1.00. The Company's statutory premiums to surplus ratio was 2.21 to 1.00 and 2.30 to 1.00 for the twelve months ended March 31, 1992 and 1991, respectively.

EFFECTS OF INFLATION AND RECESSION

The Company generally is unable to recover the costs of inflation in its automobile insurance line since the automobile premiums it charges are subject to state regulation although some form of competitive rating process may come into existence in the future. The remaining premium rates charged by the Company are adjustable only at periodic intervals and require state regulatory approval. Such periodic increases in premium rates may lag far behind related cost increases. Recessions will also have an impact upon the Company, primarily through the policyholders election to decrease non-compulsory coverages afforded by the policy which should be offset by decreased claims activity and decreased driving activity.

To the extent inflation and recession influence yields on investments, the Company is also affected. As each of these scenarios affect current market rates of return, previously committed investments may rise or decline in value depending on the type and maturity of investment. Inflation and recession also affect the Company's mortgage investments by impacting the customer's ability to qualify for mortgage financing, their ability to meet monthly payment schedules and by forcing varying interest rates to remain competitive in the market.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Inflation and recession must also be considered by the Company in the creation and review of loss and loss adjustment expense reserves since portions of these reserves are expected to be paid over extended periods of time. The anticipated effect of economic conditions is implicitly considered when estimating liabilities for losses and loss adjustment expenses. The importance of continually adjusting reserves is even more pronounced in periods of changing economic circumstances.

Over the past few years, the Company has felt the pressure of increased claims costs and operating expenses as the result of both inflationary and recessionary conditions. The longer a claim takes to settle, the more significant the impact of inflation and recession on final settlement costs.

The Company expects the effects of recession, as outlined above, to continue in 1992 although management is of the opinion that such recession will not have a material effect on future operating results.

PART II - OTHER INFORMATION

Item 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Form 8-K, dated February 7, 1992, reported on the transfer of business to the Company from six companies withdrawing from the Massachusetts Private Passenger Automobile Market (see Note 5 on Page 6 and Page 9).

(b) Form 8-K, dated March 23, 1992, reported that the Board of Directors of the Company authorized the purchase of up to 400,000 shares of its common stock on the open market or in privately-negotiated transactions.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

THE COMMERCE GROUP, INC.

Gerald Fels
Executive Vice President and Treasurer
(Chief Financial Officer)

92 14 9182

0 32382
Q 35718

71

SEC MAIL RECEIVED
MAY 15 1992
PROCESSING SECTION
WASH, DC

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OR THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 1992

A92-2267

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from __________ to __________

Commission File No. 0-19457

7/7 JS BY

DYNAMIC ASSOCIATES, INC.
(Exact name of Registrant as specified in

Microfilmed by
Q-Data Corp. - St. Petersburg, FL

L34

NEVADA	87-0473323
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

3760 SOUTH HIGHLAND DRIVE, SUITE 300
SALT LAKE CITY, UTAH
(Address of principal executive offices)

84106
(Zip Code)

Registrant's telephone number, including area code (801) 272-9283

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. [X] Yes [ ] No

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

Class	Outstanding as of May 11, 1992
$.001 PAR VALUE CLASS A COMMON STOCK	1,000,000 SHARES

DYNAMIC ASSOCIATES, INC.
(A Development Stage Company)

Balance Sheet
As of March 31, 1992 and December 31, 1991

ASSETS

	March 31, 1992 (Unaudited)	Dec. 31, 1991 (Audited)
CURRENT ASSETS		
Cash in Bank	$ 0	$ 0
Total Current Assets	0	0
OTHER ASSETS		
Organization Costs (Note 1)	0	0
Total Other Assets	0	0
TOTAL ASSETS	$ 0	$ 0

LIABILITIES & STOCKHOLDER'S EQUITY

	March 31, 1992 (Unaudited)	Dec. 31, 1991 (Audited)
LIABILITIES		
Accounts Payable	$ 0	$ 0
Total Liabilities	0	0
STOCKHOLDERS' EQUITY		
Common Stock 25,000,000 shares authorized, at $0.001 par value; 1,000,000 shares issued and outstanding	1,000	1,000
Deficit accumulated during the development stage	(1,000)	(1,000)
Total Stockholders' Equity	0	0
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	$ 0	$ 0

The accompanying notes are an integral part of this statement

DYNAMIC ASSOCIATES, INC.
(A Development Stage Company)

Statement of Operations
(Unaudited)

	For Three Months Ended	
	March 31, 1992	March 31, 1991
REVENUES	$ 0	$ 0
EXPENSES	0	0
NET DEFICIT CURRENT PERIOD	$ 0	$ 0
ACCUMULATED DEFICIT DURING DEVELOPMENT	$(1,000)	$(1,000)
DEFICIT PER SHARE	$ (.00)	$ (.00)

The accompanying notes are an integral part of this statement

DYNAMIC ASSOCIATES, INC.
(A Development Stage Company)

Statement of Cash Flows
(Unaudited)

	For Three Months Ended	
	March 31, 1992	March 31, 1991
Increase (Decrease) in cash:		
Cash Flows from operation activities		
Net (Loss) from operations	$ 0	$ 0
Adjustments to reconcile net loss to cash used in operating activities:		
Depreciation and amortization	0	0
Total adjustments	0	0
Net cash used in operating activities	0	0
Cash flows from financing activities		
Proceeds from capitalization	0	0
Net cash provided from financing activities	0	0
Net decrease in cash	0	0
Cash balance March 31, 1991	0	$ 0
Cash balance March 31, 1992	$ 0	

The accompanying notes are an integral part
of this statement

DYNAMIC ASSOCIATES, INC.
(A Development Stage Company)

Notes to Financial Statements

Note 1 - Summary of Significant Account Policies

Accounting Methods

The Company recognizes income and expenses based on the accrual method of accounting.

Organization Costs

The Company amortizes its organization cost over a five year period.

Dividend Policy

The Company has not yet adopted any policy regarding payment of dividends.

Income Taxes

The Company records the income tax effect of transactions in the same year that the transactions enter into the determination of income, regardless of when the transactions are recognized for tax purposes. Tax credits are recorded in the year realized. Since the Company has not yet realized income as of the date of this report, no provision for Federal and State taxes has been made.

Note 2 - Development Stage Company

The Company was incorporated under the laws of the State of Nevada on July 20, 1989. The Company has been in the development state since incorporation. The Company intends to acquire interests in various business opportunities which, in the opinion of management, will provide a profit to the Company. The Company has no operations nor planned products or services. Additional external financing may be required to proceed with any business plan which may be developed by the Company.

Note 3 - Purchase of Stock by Officers and Directors

On July 20, 1989 the Company sold 1,000,000 shares of its common stock to Capital General Corporation for $2,000 cash for an average consideration of $0.002 per share. The Company's authorized stock includes 25,000,000 shares of common stock at $.001 par value.

Note 4 - Related Party Transactions

The Company neither owns nor leases any real property. Office services are provided, without charge, by Capital General Corporation. Such costs are immaterial to the financial statements and, accordingly, have not been reflected herein.

The officers and directors of the Company are involved in other business activities and may, in the future, become involved in other business ventures which also seek available business opportunities. If a specific business opportunity becomes available, such persons may face a conflict in selecting between the Company and their other business interests. The Company has formulated no policy for the resolution of such conflicts.

Note 5 - Earnings (Loss) Per Share

Earnings (loss) per share amounts are computed based on the weighted average number of shares actually outstanding of 1,000,000 for 1992 and 1991.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operation.

The Registrant has been in existence since July 20, 1989. It has no operational history and has yet to engage in business of any kind. All risks inherent in a new and inexperienced enterprise are inherent in the Registrant's business. The Registrant has not made a formal study of the economic potential of any business. The Registrant has no assets or business opportunities presently contemplated for acquisition.

The Registrant has no liquidity and no presently available capital resources, such as credit lines, guarantees, etc. and should a merger or acquisition prove unsuccessful, it is possible that the Registrant may be dissolved by the State of Nevada for failing to file reports or liquidated by present management.

Based on current economic and regulatory conditions, Management believes that it is possible, if not probable, for a company like the Registrant, without assets or liabilities, to negotiate a merger or acquisition with a viable private company. The opportunity arises principally because of the high legal and accounting fees and the length of time associated with the registration process of "going public". However, should any of these conditions change, it is very possible that there would be little or no economic value for anyone taking over control of the Registrant.

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

DYNAMIC ASSOCIATES, INC.

Dated: May 11, 1992

Krista Castleton, President and Director

92 14 8369

028774

① 35684

S.E.C.
MAY 14 1992
198

13

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

EXECUTION COPY

FORM 10-Q

(Mark One)

|_X_| QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

I92.2767

For the quarterly period ended March 31, 1992

OR

|___| TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

PROCESSED BY
13 - 11 = 2.
[illegible] 15 1992

For the transition period from ____________ to ____________

Commission file number 0-18263

Microfilmed by
Q-Data Corp. - St. Petersburg, FL

Ford Holdings, Inc.
(Exact name of registrant as specified in its charter)

230

Incorporated in Delaware	38-2890269
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
The American Road, Dearborn, Michigan	48121
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code 313-322-3000

Indicate by checkmark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ✓. No ____.

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: As of May 12, 1992, the Registrant had outstanding 1,099 shares of Common Stock, all of which were held, directly or indirectly, by Ford Motor Company.

EXHIBIT INDEX
LOCATED ON SEQUENTIAL
PAGE 11

PAGE ONE OF 13 PAGES

Part I. Financial Information

Item 1. Financial Statements - The financial data presented herein are unaudited, but in the opinion of management reflect all adjustments (none of which was other than a normal recurring adjustment) necessary for a fair presentation of such information. Results for interim periods should not be considered indicative of results for a full year. Reference should be made to the financial statements contained in the registrant's Annual Report on Form 10-K (the "10-K Report") for the year ended December 31, 1991.

Ford Holdings, Inc. and Subsidiaries

CONSOLIDATED STATEMENT OF INCOME

For the Periods Ended March 31, 1992 and 1991
(in millions)

	First Quarter	
	1992	1991
	(unaudited)	
Revenues		
Financing revenues	$ 843.6	$ 788.6
Insurance premiums earned	214.6	229.4
Investment and other income	146.6	164.8
Total revenues	1,204.8	1,182.8
Expenses		
Interest expense	418.2	431.7
Operating and other expenses	293.2	282.4
Insurance claims	147.1	160.1
Provision for credit losses	107.0	89.8
Depreciation	57.6	56.1
Amortization of policy acquisition costs	28.3	30.7
Total expenses	1,051.4	1,050.8
Income before income taxes	153.4	132.0
Provision for income taxes	54.5	46.1
Income before minority interests	98.9	85.9
Minority interests in net (loss)/income of consolidated subsidiaries	(1.7)	2.8
Net income	$ 100.6	$ 83.1

The accompanying notes are part of the financial statements.

Ford Holdings, Inc. and Subsidiaries

CONDENSED CONSOLIDATED BALANCE SHEET
(in millions)

	March 31, 1992 (unaudited)	December 31, 1991
ASSETS		
Cash and cash equivalents	$ 497.9	$ 521.4
Investments in securities		
Bonds, notes, and other securities, at amortized cost (market $2,044.1 in 1992 and $2,088.3 in 1991)	2,030.2	2,006.3
Marketable equity securities, at market (cost $304.7 in 1992 and $377.3 in 1991)	369.9	453.7
Total investments in securities	2,400.1	2,460.0
Finance receivables, net	18,247.4	18,362.4
Accounts and notes receivable	776.6	749.6
Receivables from Ford and affiliated companies	352.5	364.0
Investments in direct financing leases, net	2,711.5	2,654.1
Investments in operating leases, net	1,028.6	1,063.9
Deferred policy acquisition costs	133.8	137.9
Goodwill	1,943.2	1,947.5
Other assets	484.7	518.7
Total assets	$28,576.3	$28,779.5
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable	$ 377.2	$ 378.8
Payables to Ford and affiliated companies	295.5	280.1
Unpaid insurance claims	156.3	159.4
Income taxes currently payable	59.8	36.5
Unearned insurance premiums	1,237.7	1,236.2
Debt (Note 1)	22,644.3	22,929.9
Other liabilities and deferred income	824.7	861.1
Total liabilities	25,595.5	25,882.0
Stockholders' equity		
Preferred Stock, $1 par value, $100,000 liquidation preference, authorized - 100,000 shares; issued and outstanding - 8,000 shares	800.0	800.0
Common Stock, $1 par value, authorized - 10,000 shares; issued and outstanding - 1,099 shares in 1992 and 1991	*	*
Paid-in surplus	998.5	998.5
Unrealized gain on marketable equity securities, net of taxes	43.0	50.1
Foreign-currency translation adjustments	0.8	1.6
Earnings retained for use in business	1,138.5	1,047.3
Total stockholders' equity	2,980.8	2,897.5
Total liabilities and stockholders' equity	$28,576.3	$28,779.5

- - - - -

*Less than $50,000

The accompanying notes are part of the financial statements.

Ford Holdings, Inc. and Subsidiaries

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the Periods Ended March 31, 1992 and 1991
(in millions)

	First Quarter	
	1992	1991
	(unaudited)	
Cash and Cash Equivalents at January 1	$ 521.4	$ 558.1
Cash Flows from Operating Activities	319.4	287.4
Cash Flows from Investing Activities		
Acquisition of finance and lease receivables	(3,421.5)	(5,932.7)
Collections on finance and lease receivables	3,291.7	3,623.8
Purchases of securities	(3,207.6)	(1,833.3)
Sales of securities	3,274.7	1,998.4
Other	10.3	(2.1)
Net cash used in investing activities	(52.4)	(2,145.9)
Cash Flows from Financing Activities		
Capital contributions received (Note 2)	-	54.0
Proceeds from issuance of long-term debt	527.2	1,526.2
Principal payments on long-term debt	(507.2)	(426.9)
Net (decrease)/increase in short-term debt	(295.4)	935.9
Dividends paid to shareholders	(9.4)	(14.2)
Other	(5.7)	(42.3)
Net cash (used in)/provided by financing activities	(290.5)	2,032.7
Net (decrease)/increase in cash and cash equivalents	(23.5)	174.2
Cash and Cash Equivalents at March 31	$ 497.9	$ 732.3

The accompanying notes are part of the financial statements.

Ford Holdings, Inc. and Subsidiaries

NOTES TO FINANCIAL STATEMENTS
(unaudited)

Note 1. Debt (in millions)

	Range of Interest Rates	Maturities	March 31, 1992 (unaudited)	Dec. 31, 1991
Debt Payable Within One Year				
Commercial paper			$ 8,822.4	$ 8,749.3
Bank borrowings			-	368.4
Total short-term debt			8,822.4	9,117.7
Senior and subordinated notes and debentures payable within one year			1,915.1	1,749.6
Total debt payable within one year			10,737.5	10,867.3
Debt Payable After One Year				
Unsecured senior indebtedness				
Notes	5.0-15.0%	1993-2020	11,555.3	11,675.4
Unsecured subordinated notes	4.7-12.8%	1993-2009	241.4	325.8
Secured notes	6.0-10.0%	1993-2011	104.0	54.4
Capital lease obligations	4.5-12.0%	1993-2021	6.1	7.0
Total debt payable after one year			11,906.8	12,062.6
Total debt			$22,664.3	$22,929.9

Note 2. Capital Contribution

In January 1991, Ford Holdings, Inc. issued 99 shares of Common Stock in connection with a capital contribution from Ford Motor Credit Company ("Ford Credit") of $216 million in the form of cash of $54 million and stock of certain consumer finance subsidiaries owned by Ford Credit.

Coopers
&Lybrand

certified public accountants

To the Board of Directors and Stockholders
Ford Holdings, Inc.

We have made a review of the condensed consolidated balance sheet of Ford Holdings, Inc. and Subsidiaries at March 31, 1992 and the related consolidated statement of income and condensed consolidated statement of cash flows for the periods set forth in Form 10-Q for the quarter ended March 31, 1992, in accordance with standards established by the American Institute of Certified Public Accountants.

A review of interim financial information consists principally of obtaining an understanding of the system for the preparation of interim financial information, applying analytical review procedures to financial data, and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the financial statements referred to above for them to be in conformity with generally accepted accounting principles.

We have previously audited, in accordance with generally accepted auditing standards, the consolidated balance sheet at December 31, 1991 and the related consolidated statements of income, stockholders' equity and cash flows for the year then ended (not presented herein); and in our report dated February 7, 1992, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet at December 31, 1991 is fairly presented, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

Coopers & Lybrand

Detroit, Michigan
April 29, 1992

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations

First Quarter 1992 Compared with First Quarter 1991

The consolidated net income of Ford Holdings, Inc. (the "Company") and its subsidiaries for the first quarter of 1992 was $101 million, up $18 million, or 21%, from the first quarter of 1991. The increase primarily reflected continued growth in finance receivables and improvements in net interest margins at Associates First Capital Corporation ("The Associates"), and improved operating results at most other operations. Consolidated results reflect the acquisition-related costs of purchasing The Associates.

The Associates earned $82 million in the first quarter of 1992, up $11 million from the first quarter of 1991. The improvement resulted from continued growth in residential real estate-secured and other installment receivables, including the acquisitions of Kentucky Finance Co., Inc. and Chase Manhattan Leasing Company (Michigan), Inc. in the third quarter of 1991, and improved net interest margins.

The American Road Insurance Company ("American Road") earned $40 million in the first quarter of 1992, up $2 million from the same period in 1991. Underwriting profits were higher because of lower losses for both the Extended Service Plan business, which covers vehicle repairs, and for the Collateral Protection Insurance business. A decline in investment income resulting from lower market interest rates on a smaller average investment portfolio was a partial offset. Premiums written by American Road were $80 million in the first quarter of 1992, up $5 million, or 7%, from the same period in 1991, reflecting improved economic conditions.

U.S. Leasing International, Inc. ("U.S. Leasing") earned $10 million in the first quarter of 1992, down $1 million from the first quarter of 1991. Ford Motor Land Development Corporation ("Ford Land") and Ford Leasing Development Company ("Ford Leasing"), on a combined basis, earned $2 million in the first quarter of 1992, compared with a loss of $2 million in first quarter of 1991. The improvement resulted primarily from increases in tenant occupancy at Ford Land and rental rates at Ford Leasing.

Liquidity and Capital Resources

Ford Holdings, Inc. (Excluding Subsidiaries)

At March 31, 1992, the Company had outstanding debt of $1.9 billion, all of which was medium- to long-term. All of the Company's debt held by nonaffiliated persons is guaranteed by Ford. The Company had no contractually committed lines of credit at March 31, 1992. In addition, at March 31, 1992, the Company had 8,000 shares of Flexible Rate Auction Preferred Stock (Exchange) issued and outstanding, with an aggregate liquidation value of $800 million. The Company expects that cash dividends from operations (primarily from The Associates) will be sufficient to service its outstanding debt and pay dividends on its preferred stock.

Operating Subsidiaries of the Company

The Associates' primary sources of funds include sales of commercial paper, issuance of unsecured medium-term debt in the public and private markets, and credit facilities with commercial banks. At March 31, 1992, The Associates had contractually committed lines of credit with banks of $1.9 billion, which are available through May 31, 1992, none of which was utilized at March 31, 1992. Also, at March 31, 1992, The Associates had contractually committed revolving credit facilities with banks of $3.3 billion, with maturity dates ranging from August 1, 1992 through January 1, 1996, and a $500 million contractually committed receivables sale facility, which is available through April 15, 1994; none of these facilities was in use at March 31, 1992. Neither Ford nor the Company guarantees the debt of The Associates. The Associates' profitability is not related to the business outlook for Ford and this situation is not expected to change in the future.

American Road's principal sources of funds are insurance premiums and investment income. American Road had no debt or credit lines at March 31, 1992. At March 31, 1992, the market value of American Road's investment portfolio, including cash equivalents, was $1.9 billion, about equal to the value at December 31, 1991. American Road's investment portfolio consists primarily of highly-liquid U.S. Government and corporate securities. From an operating profit standpoint, American Road's profitability is closely related to the business conditions affecting Ford and Ford Credit, and the level of insurance premiums generated by American Road depends, to a large extent, on the level of Ford vehicle sales and the extent to which Ford Credit finances these sales.

U.S. Leasing's principal sources of funds include sales of commercial paper and issuance of unsecured medium-term debt. At March 31, 1992, U.S. Leasing had $1.1 billion of contractually committed credit facilities, 85% of which are available through December 1996. At March 31, 1992, all of these facilities were unused. Neither Ford nor the Company guarantees the debt of U.S. Leasing, although U.S. Leasing's existing credit lines require that Ford maintain at least a 75% direct or indirect ownership interest in U.S. Leasing. At present, U.S. Leasing's profitability is not significantly related to the business outlook for Ford and this situation is not expected to change in the future.

Future Accounting Changes

For information regarding the expected impact on the Company and its subsidiaries of implementing Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" and Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes", see Note 4 and Note 5, respectively, of the Notes to Financial Statements included in the 10-K Report.

Other Financial Information

Coopers & Lybrand, the Company's independent public accountants, performed a limited review of the financial data presented on pages 2 through 5 inclusive. The review was performed in accordance with standards for such reviews established by the American Institute of Certified Public Accountants. The review did not constitute an audit; accordingly, Coopers & Lybrand did not express an opinion on the aforementioned data. The financial data include any adjustments or disclosures proposed by Coopers & Lybrand as a result of their review.

Part II. Other Information

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Designation	Description	Method of Filing
12	Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends	Filed with this report
15	Letter of Coopers & Lybrand, Independent Public Accountants, dated May 12, 1992, relating to Financial Information	Filed with this report

(b) Reports on Form 8-K

No reports on Form 8-K have been filed during the quarter for which this report is filed.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

FORD HOLDINGS, INC.
(Registrant)

Date: May 13, 1992

By:
Terrence F. Marrs
Vice President - Controller
(principal accounting officer)

EXHIBIT INDEX

Designation	Description	Sequential Page Number at Which Found
Exhibit 12	Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends	12
Exhibit 15	Letter of Coopers & Lybrand, Independent Public Accountants, dated May 12, 1992, relating to Financial Information	13

Exhibit 12

Ford Holdings, Inc. and Subsidiaries

COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS

Ford Holdings, Inc. and subsidiaries' ratio of earnings to combined fixed charges and preferred stock dividends was as shown below:

	First Quarter	
	1992	1991
	(dollar amounts in millions)	
Earnings (a)		
Income before income taxes	$ 153.4	$ 132.0
Fixed charges	434.6	451.6
Total earnings before fixed charges	$ 588.0	$ 583.6
Combined Fixed Charges and **Preferred Stock Dividends** (a)		
Interest	$ 418.3	$431.9
One-third rental expense	6.3	6.5
Preferred stock dividend requirements (b)	15.6	21.0
Total fixed charges and preferred stock dividends	$ 440.2	$ 459.4
Ratio of earnings to fixed charges and preferred stock dividends	1.34	1.27

- - - - -

(a) For purposes of computing the ratio of earnings to combined fixed charges and preferred stock dividends, "earnings" represent earnings before income taxes, plus fixed charges. "Combined fixed charges and preferred stock dividends" represent interest expense, a portion of rentals representative of an implicit interest factor for such rentals, and dividends paid on preferred stock.

(b) Preferred stock dividend requirements have been increased to an amount representing the pre-tax earnings which would be required to cover such dividends based on the effective income tax rates for the respective periods.

Coopers
&Lybrand

certified public accountants

Exhibit 15

Ford Holdings, Inc.
The American Road
Dearborn, Michigan

We are aware that our report dated April 29, 1992 accompanying the unaudited interim financial information of Ford Holdings, Inc. for the period ended March 31, 1992 will be incorporated by reference in the Registration Statements on Form S-3 of Ford Holdings, Inc. (No. 33-39129) and of Ford Holdings, Inc. and Ford Motor Company (No. 33-32641). Pursuant to Rule 436(c) under the Securities Act of 1933, these reports should not be considered a part of the Registration Statement prepared or certified by us within the meaning of Sections 7 and 11 of that Act.

Coopers & Lybrand

Detroit, Michigan
May 12, 1992

0 32313

92 14 7240

11

MA/15

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Q 35687

FORM 10-Q

ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

Jen-22

(Mark One)

X QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the period ended March 31, 1992

OR

____ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number 0-19647

MAY 12 1992

GENCARE HEALTH SYSTEMS, INC.
ame of registrant as specified in its charter)

Microfilmed by
Q-Data Corp. - St. Petersburg, FL

Missouri	43-1361841
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

L 3U

969 Executive Parkway St. Louis, Missouri	63141
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (314) 434-6114

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No__

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

10,700,000 shares of common stock, par value $.02 per share, as of April 30, 1992.

GenCare Health Systems, Inc.

Form 10-Q

QUARTER ENDED MARCH 31, 1992

INDEX

Part I

Item
Number

Page
of this Form

1. Financial Statements 3
2. Management's Discussion and Analysis of Financial Condition and Results of Operations 6

Part II

1. Legal Proceedings 7
2. Changes in Securities 7
3. Defaults Upon Senior Securities 7
4. Submission of Matters to a Vote of Security Holders 7
5. Other Information 7
6. Exhibits, and Reports on Form 8-K 7

Part I. Financial Information
Item 1. Financial Statements

GenCare Health Systems, Inc. and Subsidiaries
Consolidated Balance Sheets
March 31, 1992 and December 31, 1991

ASSETS	(unaudited) Mar. 31, 1992	Dec.31, 1991
Current assets:		
Cash and cash equivalents	$7,047,799	7,111,913
Short-term investments, at cost which approximates market	26,717,527	20,765,106
Premiums receivable, less allowance for billing adjustments of $39,500 in 1992 and 1991	2,151,221	3,268,925
Other current assets	2,834,940	1,284,764
Total current assets	38,751,487	32,430,708
Restricted assets	550,000	450,000
Excess of cost over fair value of net assets acquired	19,957,632	20,092,632
Total assets	$59,259,119	52,973,340

LIABILITIES AND SHAREHOLDERS' EQUITY	Mar. 31, 1992	Dec.31, 1991
Current liabilities:		
Accounts payable-capitation	$45,136	29,204
Claims payable	14,917,656	13,476,816
Medical groups risk-sharing pools	2,467,607	1,289,140
Unearned premiums	1,075,834	84,127
Income taxes payable-current	1,667,563	513,185
Other current liabilities	-	1,309,279
Total current liabilities	20,173,796	16,701,751
Commitments and contingent liabilities		
Shareholders' equity :		
Common Stock, $0.02 par value. Authorized 15,000,000 shares issued and outstanding 10,700,000 shares	214,000	214,000
Additional paid-in-capital	28,809,134	28,809,134
Retained earnings	10,062,189	7,248,455
Total shareholders' equity	39,085,323	36,271,589
Total liabilities and shareholders' equity	$59,259,119	52,973,340

See accompanying notes to consolidated financial statements.

GenCare Health Systems, Inc. and Subsidiaries
Consolidated Income Statements
Three Months Ended March 31, 1992 and 1991
(Unaudited)

	1992	1991
Revenue		
Premiums	$36,424,931	31,172,170
Preferred provider organization fees	772,821	647,389
Interest	421,314	458,441
Total revenues	37,619,066	32,278,000
Benefit claims and capitation payments	28,864,508	24,979,224
Administration:		
Management fees	3,846,324	3,731,000
Other	129,577	224
Amortization of excess of cost over fair of net assets acquired	135,000	135,000
Total expenses	32,975,409	28,845,448
Earnings before income tax expense	4,643,657	3,432,552
Income tax expense	1,829,923	1,346,492
Net earnings	$2,813,734	2,086,060
Net earnings per share	$0.26	$0.21
Weighted average number of common shares outstanding	10,718,033	10,000,000

See accompanying notes to consolidated financial statements.

GenCare Health Systems, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
Three Months Ended March 31, 1992, and 1991
(Unaudited)

	1992	1991
Cash flows from operating activities:		
Net Earnings	$2,813,734	$2,086,060
Adjustments to reconcile earnings to net cash provided by (used) in operating activities :		
Amortization of excess of cost over fair value of net assets acquired	135,000	135,000
Change in operating assets and liabilities:		
Premiums receivable, net	1,117,704	(773,685)
Prepaid capitation		1,222,682
Other current assets	(1,550,176)	82,536
Restricted assets	(100,000)	—
Accounts Payable – capitation	15,932	34,633
Claims payable	1,440,840	1,529,533
Medical groups risk – sharing pools	1,178,467	651,359
Unearned premiums	991,707	43,828
Income taxes payable – current	1,154,378	374,002
Other current liabilities	(1,309,279)	1,368,590
Total adjustments	3,074,573	4,668,478
Net cash provided by operating activities	5,888,307	6,754,538
Net cash used in investing activities	(5,952,421)	(257,736)
Net increase (decrease) in cash and cash equivalents	(64,114)	6,496,802
Cash and cash equivalents at beginning of period	7,111,913	3,160,156
Cash and cash equivalents at end of period	$7,047,799	$9,656,958

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. Basis of presentation

The accompanying condensed consolidated financial statements include the accounts of GenCare Health Systems, Inc., and its subsidiaries, Sanus Dental Plan, Inc. and Sanus/Passport Preferred Services, Inc., presented on a consolidated basis. All significant intercompany accounts and transactions have been eliminated. The information contained in these condensed financial statements is unaudited but does contain all adjustments, consisting of normal recurring adjustments, which in the opinion of management are necessary for a fair presentation of the results of the interim periods reflected. Certain information and footnote disclosure normally included in consolidated financial statements prepared in accordance with generally accepted accounting principles have been omitted pursuant to applicable rules and regulations of the Securities and Exchange Commission. The financial statements should be read in conjunction with the Company's consolidated financial statements and related notes in the 1991 annual report.

2. Common stock

Earnings per share was computed by dividing net income by the weighted average number of common shares outstanding during the period, taking into consideration common stock equivalents which were dilutive. Common stock equivalents represent options issued and outstanding for the periods presented.

Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations
Three Months ended March 31, 1992 and 1991

Overview

GenCare Health Systems, Inc. (GenCare), formerly Sanus Health Plan, Inc., and subsidiaries (the Company) is a prepaid health maintenance organization incorporated in the State of Missouri. Medical care is provided to employee groups which subscribe to various health maintenance services provided by the Company.

Sanus Dental Plan, Inc., (Dental) and Sanus/Passport Preferred Services, Inc., (Passport) are wholly owned subsidiaries of GenCare. Dental is comprised of groups with dental coverage only. Passport operates as a preferred provider organization (PPO).

The Company's revenues consist primarily of premiums from Sanus HMO, Sanus Dental HMO, and Sanus PPO fee revenue. Benefit claims and capitation payments consist primarily of benefit payments to physicians, hospitals, and other health care providers.

Results of Operations

Total revenues increased 16.5% to $37.6 million in the first 3 months of 1992 from $32.3 million in the first 3 months of 1991. Premium revenue increased 16.9% to $36.4 million from $31.2 million. Virtually all of this increase was attributable to Sanus HMO. Dental revenues, which are included in premium revenues, increased 39.9% to $.6 million for the first 3 months of 1992 compared to $.4 million for the first 3 months of 1991. Dental revenues include revenue received by Sanus HMO for prepaid dental care and all revenue received by Sanus Dental HMO.

The growth in premium revenues during the first 3 months of 1992 was the result of an approximate 11.9% average increase in premiums and an 8.6% increase in membership, to 118,340 from 109,015, resulting in an 8.5% increase in member months. Higher membership resulted from the addition of new employer groups, including one major employer in the service area, and increased membership from existing accounts led by a substantial increase from several of St. Louis' major employers.

Preferred provider organization fee revenue increased 19.4% to $.8 million in the first 3 months of 1992 from $.6 million in the first 3 months of 1991. This increase was due to sales of new groups, change in method of fee calculation of a major employer, increases in membership and fee rate increases of approximately 5%.

Interest income remained at approximately $.4 million in the first 3 months of 1992 compared to approximately $.4 million in the first 3 months of 1991 due to an increase in the amount of funds available for investment offset by declining interest rates.

Benefit claims and capitation payments increased 15.5% to $28.9 million in the first 3 months of 1992 from $25.0 million in the first 3 months of 1991. Average commercial health care costs per member per month increased 13.1% to $81.30 from $71.89. The amount of this increase was limited by the Company's cost containment measures. Effective cost containment procedures are reflected by the 6.2% decline in the annualized hospital days per thousand to 287 in the first 3 months of 1992 from 306 in the first 3 months of 1991. Included in the per member per month cost is a substantial increase in doctors' pool settlements.

The medical loss ratio decreased to 79.2% in the first 3 months of 1992 from 80.1% in the first 3 months of 1991. The Company believes that the decreased medical loss ratio was due to lower utilization of hospital services, and changes in contracting to a capitation basis for radiology services, partially offset by an increased accrual for pool settlements.

The management fee paid to Sanus of Missouri, Inc. (SOMI), the company providing outside management services to the Company, increased 3% to $3.8 million in the first 3 months of 1992 from $3.7 million in the first 3 months of 1991. The change in SOMI's management fee to 10.2% of revenue from 11.6% of revenue was caused by changes in SOMI's profit sharing agreement to 15% of pre-tax revenue from 25% of pre-tax revenue, increased membership revenue, and adjustments in SOMI's per member per month fee.

Net income increased 35% to $2.8 million in the first 3 months of 1992 from $2.1 million in the first 3 months of 1991 as a result of the foregoing factors.

New Accounting Standards

In February 1992, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" (SFAS 109) which supersedes SFAS No. 96. SFAS 109 specifies an asset and liability approach for financial accounting and reporting for income taxes. The FASB will require implementation of SFAS 109 in 1993. The Company has not formally adopted the provisions of SFAS 109. However, the implementation of SFAS 109 is not expected to have a significant impact on the Company's financial position or results of operations.

Statement of Financial Accounting Standard No. 106, "Accounting for Other Post-Employment Benefits," which is required to be implemented in 1993, will not affect the Company unless and until it has employees, as currently all personnel cost are absorbed by SOMI.

Effects of Inflation

Health care costs have been rising at a faster rate than costs for consumer goods as a whole. The Company believes its premium increases, cost control measures, and risk-sharing incentive arrangements with physicians have reduced, to a certain extent, the adverse effect of medical cost inflation on its operations. If the Company were not able to continue to adequately increase its premiums, medical cost inflation could have a material adverse impact on the Company's results of operations.

Liquidity and Capital Resources

During the first quarter of 1992 and throughout 1991, GenCare maintained cash and cash equivalents at levels adequate to support operations. The Company did not borrow from financial institutions or other sources during those periods. The level of cash, cash equivalents, and short-term investments totaled $33.8 million at March 31, 1992, and $27.9 million at December 31, 1991.

Cash generated from operations for the first three months of 1992 and 1991 were $5.9 million and $6.8 million, respectively.

Since all administrative services are provided under the management agreement with SCMI, the Company has no significant capital expenditures currently planned.

Under the regulations governing HMOs in Illinois, the Company is required to maintain a special contingent reserve of not less than $1,500,000, an amount which also satisfies the Missouri capital account requirements. Sanus Dental HMO maintains a minimum capital level of $150,000. The Company keeps a restricted cash reserve of at least $450,000 on deposit with third parties as part of such requirements.

Part II

Item 1. LEGAL PROCEEDINGS

GenCare and its subsidiaries are parties to numerous claims and lawsuits incidental to their businesses. Of these, a significant portion involves claims for coverage or for payment of medical services rendered to HMO members. Although the ultimate resolution of these actions is not currently determinable, the Company believes that any liability resulting from such claims and lawsuits in excess of insurance coverage, indemnification by responsible parties, and amounts already provided for, should not have a material adverse effect on the Company's consolidated financial position.

Item 2. CHANGES IN SECURITIES

Not applicable.

Item 3. DEFAULTS UPON SENIOR SECURITIES

None

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the first quarter of 1992.

Item 5. OTHER INFORMATION

Not applicable.

Item 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibit Index - None

(b) No reports on Form 8-K have been filed during the quarter.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

GenCare Health Systems, Inc.

Date: May 14, 1992

By: Michael R Hogan
Michael R. Hogan, President

Date: May 14, 1992

By:
John W. Barber, Vice President
and Chief Accounting Officer

0 29678
0 351082

[redacted]

92 15 2170

11

1 8 1992

K92-2267

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarter Ended March 31, 1992, Commission File No. 0-18577

HEALTH ADVANCEMENT SERVICES, INC.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	86-0441569 (I.R.S. Employer Identification No.)
1457 W. Alameda Drive, Suite 10, Tempe, Arizona (Address of principal executive offices)	85282 (Zip Code)

(602) 966-1599

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subjected to such filing requirements for the past 90 days.

Yes X No ____

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at April 30, 1992
Common Stock, $.001 Par Value	6,715,368

PROCESSED BY
11-11 H
MAY 19 1992

Microfilmed by
Q-Data Corp. - St. Petersburg, FL

HEALTH ADVANCEMENT SERVICES, INC.

BALANCE SHEET

(Unaudited)

	March 31, 1992	June 30, 1991
ASSETS		
CURRENT ASSETS:		
Cash	$2,403,053	$ 841,632
Accounts receivable		4,005
Accounts Receivable - related parties less allowance for doubtful account	90,020	85,800
Inventory	5,800	5,800
Prepaid expense and other assets	80,620	17,912
Notes receivable - related party	28,759	26,545
TOTAL CURRENT ASSETS	2,608,252	981,694
PROPERTY, EQUIPMENT AND SOFTWARE (net of accumulated depreciation)	144,846	65,038
OTHER ASSETS	8,958	14,333
	$2,762,056	$1,061,065
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 132,133	$ 183,255
Loans and notes payable current portion	25,845	274,986
Notes payable - related party	39,220	206,720
Due to related parties		4,061
TOTAL CURRENT LIABILITIES	197,198	669,022
LONG-TERM DEBT	59,933	7,182
STOCKHOLDER'S EQUITY:		
Common stock - $.001 par value; authorized 20,000,000 shares, issued and outstanding 6,715,368 and 3,715,368 shares	6,715	3,715
Paid-in capital	$5,831,414	$3,304,864
Accumulated deficit	(3,333,204)	(2,923,718)
	2,504,925	384,861
	$2,762,056	$1,061,065

See notes to financial statements.

HEALTH ADVANCEMENT SERVICES, INC.

STATEMENT OF OPERATIONS

(Unaudited)

	For the three months ended March 31		For the nine months ended March 31,	
	1992	1991	1992	1991
REVENUES:				
Management fees	$ 216,126	$ 107,365	$ 488,272	$ 281,788
Less deferred advances	(113,713)	(64,751)	(385,859)	(281,788)
NET MANAGEMENT FEE	102,413	42,614	102,413	-
COST OF SALES	-	-	-	-
GROSS PROFIT	102,413	42,614	102,413	-
EXPENSES:				
Selling, general and administrative	156,732	220,359	589,663	626,503
Deferred advances				21,430
Interest expense (income)	(26,381)	(16,582)	(77,764)	(36,701)
NET INCOME (LOSS)	$ (27,938)	(161,163)	$ (409,486)	(611,232)
NET LOSS PER SHARE	$ (.01)	(.06)	$ (.09)	(.22)
WEIGHTED AVERAGE SHARES OUTSTANDING	5,582,035	2,836,667	4,337,590	2,836,667

See notes to financial statements

HEALTH ADVANCEMENT SERVICES, INC.

STATEMENT OF CASH FLOWS

(Unaudited)

	For the nine months ended March 31, 1992	
	1992	1991
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (409,486)	$ (611,232)
Adjustment to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	33,482	(25,848)
(Increase) Decrease in accounts receivable	4,005	-
(Increase) in accounts receivable - related parties	(4,220)	-
(Increase) Decrease in prepaid expenses and other assets	(62,708)	(16,298)
(Increase) in notes receivable - related parties	(2,214)	(14,551)
(Decrease) Increase in loans and notes payable - current portion	(420,702)	26,633
(Decrease) increase in accounts payable and accrued expenses	(51,122)	(29,021)
NET CASH (USED) BY OPERATIONS	(912,965)	(618,621)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property, plant and equipment	(107,915)	(2,731)
NET CASH (USED) IN INVESTING ACTIVITIES	(107,915)	(2,731)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Decrease in Marketable Securities	-	243,033
Increase (decrease) in loans and notes payable - long-term portion	52,751	(27,466)
Increase in issuance of capital stock	2,529,550	-
NET CASH (USED) PROVIDED BY FINANCING ACTIVITIES	$2,582,301	215,567
NET INCREASE (DECREASE) IN CASH	$1,561,421	$ (405,785)
CASH BALANCES - beginning of period	841,632	1,095,854
CASH BALANCES - end of period	$2,403,053	690,069
SUPPLEMENTAL INFORMATION:		
Cash paid for the period for interest	$ 41,453	$ 56,710

See notes to financial statements

HEALTH ADVANCEMENT SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

NINE MONTHS ENDED MARCH 31, 1992

(Unaudited)

1. BASIS OF PRESENTATION

The accompanying unaudited financial statements have been prepared in accordance with Article 10 of Regulation S-X and, therefore, do not include all information and footnotes necessary for a fair presentation of financial position, results of operations and cash flows in accordance with generally accepted accounting principles. Reference is made to the Company's Annual Report on Form 10-K for the year ended June 30, 1991.

The financial statements for the periods ended March 31, 1992, and 1991 are unaudited and include all adjustments which, in the opinion of management, are necessary to a fair statement of the results of operations for the periods then ended. All such adjustments are of a normal recurring nature. The results of the Company's operation for any interim period are not necessarily indicative of the results of the Company's operation for a full fiscal year.

2. DESCRIPTION OF COMPANY

The Company and contracted affiliates provide non-medical management and administrative services as part of an employer worksite health evaluation, education and medical referral program designed to reduce employers' overall health care costs through the identification and reduction of health risk factors.

3. SIGNIFICANT ACCOUNTING POLICIES

A. Financial statements are prepared on an accrual basis.

B. Property, equipment and software has been recorded at cost and are depreciated, using the straight-line method, over the estimated useful lives of the assets. Equipment includes assets capitalized pursuant to certain leases qualifying for such accounting treatment.

C. Per share data has been computed based on average number of shares. See Note 5 below.

D. Prior to June 30, 1989, the Company used the direct write off method, the results of which are not materially different from the reserve method in the Company's case. At March 31, 1992 and June 30, 1991, the Company provided an allowance under the reserve method of $1,035,000 and $869,881 respectively.

4. RELATED PARTY TRANSACTIONS

The Company contracted with five professional corporations, owned by a principal of the Company, for the Company to provide management, administrative and marketing services to the professional corporations, which entities employ registered nurses for the Company's personal health advisor system. The agreements provide for payment to the Company of monthly fees of 45% of the professional corporations' gross revenues. The accounting for the contracts was implemented on September 1, 1989. No allocation to cost of sales for administrative and marketing services provided has been made. Pursuant to the terms of the management services contracts, the Company has agreed to advance funds to the professional corporations. The Company has a security interest in the receivables owned by the professional corporations. Such advances carry an interest rate of 2% above the prime rate. The agreements are for the term of twenty years unless terminated earlier in the event of default.

As of March 31, 1992, the Company has advanced approximately $1,175,000 to the professional corporations. These entities are currently operating at a loss and experiencing negative cash flows. As a result, management has elected to reserve approximately $1,085,000 of the receivables from the entities. At the present time, the recoverability of the aforementioned receivables is unknown and will not be determinable until such time as the entities begin profitable operations and positive cash flows.

5. REVERSE STOCK SPLIT

On December 9, 1991, the Board of Directors of the Company declared a one-for-three reverse stock split pursuant to which each three shares of Common Stock of the company, $.001 par value per share, were exchanged for one new share on January 20, 1992. The accompanying financial statements give retroactive recognition of the reverse split.

6. PRIVATE PLACEMENT

During the months of February and March 1992, the Company sold in a private placement 120 Units of the Company's securities at $25,000 per Unit. The Company received net proceeds of $2,529,550. Each Unit consisted of 25,000 shares of Common Stock, and 25,000 redeemable Class C Common Stock Purchase Warrants, each to purchase one share of Common Stock at $2.00 per share, subject to adjustment, for a five-year period from the Closing Date.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Material Changes in Financial Condition

As of March 31, 1992, the Company had working capital of $2,411,054, as compared with working capital of $312,672 at June 30, 1991. The increase in working capital was primarily a result of raising net proceeds of $2,529,550 by issuing securities through a private placement, offset by the Company's loss from operations of $409,486 for the nine months ended March 31, 1992 (the "Fiscal 1992 Period"). See Note 6 to Financial Statements. The Company had net cash used in finance activities of $107,915 during the Fiscal 1992 Period.

Under the Company's Management Services Agreements, the Company advanced approximately $1,175,000 for the funding of the Company's five professional corporations' (the "Affiliated Corporations") operations through March 31, 1992. The Company reserved approximately $870,000 at June 30, 1991 and $1,085,000 at March 31, 1992 of the receivables from the Affiliated Corporations, since they are operating at a loss and experiencing negative cash flows. At the present time, the recoverability of such receivables is unknown and will not be determinable until such time, if ever, as the Affiliated Corporations begin profitable operations and are operating on a positive cash flow basis. Pursuant to the terms of the Management Services Agreements, the Company is receiving 45% of the gross revenues received by the Affiliated Corporations from each client. However, the Company is currently incurring essentially the same costs it previously incurred since it is funding operating losses via advances to the Affiliated Corporations, even though Management expects these advances to eventually be recovered.

In June 1991, the Company converted $437,221 of outstanding indebtedness and sold an additional $90,000 of Common Stock in exchange for the issuance of 2,636,104 shares of Common Stock at the rate of $.20 per share. In July 1991, the Company repaid $433,500 of its loans and notes payable from the proceeds of the aforementioned financing.

In August 1991, the Company entered into a four-year capital lease agreement with General Electric Capital Corporation to lease with a $1 option to purchase, laboratory equipment to bring the Company's laboratory up to current standards. The payments are approximately $97,000 including taxes and interest over the four-year term of the lease.

In September 1991, the Company entered into a three-year noncancelable lease agreement with Alco Capital Resource to lease a copy machine. The payments are approximately $20,000 including taxes and interest over the three-year term of the lease.

In February 1992, the company entered into a three-year, noncancelable capital lease agreement with National Computer Systems to lease scanning equipment. The payments are approximately $13,000 including taxes and interest over the three-year term of the lease.

The Company had no significant capital commitments other than the aforementioned as of March 31, 1992, and no plans for any additional commitments.

During the months of February and March 1992, the Company sold in a private placement 120 Units of the Company's securities at $25,000 per Unit. Each Unit consisted of 25,000 shares of Common Stock, and redeemable Class C Common Stock Purchase Warrants, each to purchase one share of Common Stock at $2.00 per share, subject to adjustment, for a five-year period from the closing date. The amount of cash raised (net of related expenses) was $2,529,550.

Material Changes in Results of Operations

The Three Months Ended March 31, 1992, as Compared With the Three Months Ended March 31, 1991.

The Company's gross management fees for the three months ended March 31, 1992 (the "Fiscal 1992 Quarter") Period increased by $108,761, 101%, from the three months ended March 31, 1991 (the "Fiscal 1991 Quarter"). This increase is the result of the increased gross revenues earned by the Affiliated Corporations and reflects the Company's increased sales effort. A significant portion of the sales increase resulted from a contract with Prudential Insurance Company of America entered into in January 1992.

The Company acts as a management company for the five Affiliated Corporations providing administrative and marketing services and incurs only selling and administrative expenses. The Company, therefore, has no cost of sales as a result of the Company instituting the accounting for the Management Services Agreements. Fiscal 1992 Quarter selling, general and administrative expenses of $156,732 plus deferred advances of $113,713 are $14,665 lower or 5%, as compared with the Fiscal 1991 Quarter. This decrease predominately relates to the Company's decreased advances made to the Affiliated Corporations.

As a result of the foregoing, the Company incurred a net loss of $27,938, as compared with a net loss of $161,163 for the Fiscal 1990 Quarter, a decrease of $133,225 or 83%.

The Nine Months Ended March 31, 1992, as Compared with the Nine Months Ended March 31, 1991.

The Company's gross management fees for the Fiscal 1992 Period increased by $206,484, or 73%, *from the nine months* ended March 31, 1991 (the "Fiscal 1991 Period"). This increase is the result of the increased gross revenues earned by the Affiliated Corporations and reflects the Company's increased sales effort. A significant portion of the sales increase resulted from the contract with Prudential Insurance Company of America.

Fiscal 1992 Period selling, general and administrative expenses of $589,663 plus deferred advances of $385,859 are $45,801 higher or 5%, as compared with the Fiscal 1991 Period. This increase predominately relates to the higher marketing expenses associated with higher revenues.

As a result of the foregoing, the Company incurred a net loss of $409,486, as compared with a net loss of $611,232 for the Fiscal 1991 Period, a decrease of $201,746, or 33%.

PART II
OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

A report on Form 8-K was filed by the Company for January 24, 1992, concerning the Company's entering into a contract with Prudential Insurance Company of America, and a report on Form 8-K was filed for February 26, 1992, concerning the Company's completion of private placement.

SIGNATURE

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

HEALTH ADVANCEMENT SERVICES, INC.

Dated: May 14 , 1992
Tempe, Arizona

By:
Frank Connell
Acting President and Chief Executive Officer

May 14, 1992
New York, New York

By:
William C. Kaltnecker
Acting Chief Financial Officer

0539u

0 30936
Q 355721

92 14 5545

MAY 1 5 1992

58

Total Pages: 55
Index to Exhibits Page: 10

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended March 31, 1992

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

Commission File Number: 0-19261

LGL-2267

MACKINAC FINANCIAL CORPORATION
(Exact name of registrant as specified in its charter)

Michigan
(State or other jurisdiction of incorporation or organization)

38-2986104
(I.R.S. Employer Identification No.)

511 Woodward Avenue, Detroit, Michigan 48226
(Address of principal executive offices and zip code)

(313) 961-7600
(Registrant's telephone number, including area code)

Not Applicable
(Former name, former address and former fiscal
year if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes X No ____.

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

CLASS	Outstanding at April 30, 1992
Common Stock, no par value	89,731 Shares

L30

PROC[illegible]
58-13-1
MAY 1[illegible] 1992

Microfilmed by
Q-Data Corp. - St. Petersburg, FL

MACKINAC FINANCIAL CORPORATION
AND SUBSIDIARIES

INDEX

Page No.

PART I - FINANCIAL INFORMATION

Consolidated Statements of Financial Condition at March 31, 1992 (Unaudited) and December 31, 1991 1

Consolidated Statements of Operations for the Three Months Ended March 31, 1992 and 1991 (Unaudited) 2

Consolidated Statements of Stockholders' Equity for the Three Months Ended March 31, 1992 and 1991 (Unaudited) 3

Consolidated Statements of Cash Flows for the Three Months Ended March 31, 1992 and 1991 (Unaudited) 4

Notes to Unaudited Consolidated Financial Statements 5

Management's Discussion and Analysis 5 - 7

PART II - OTHER INFORMATION 8

SIGNATURES 9

INDEX TO EXHIBITS 10

MACKINAC FINANCIAL CORPORATION
AND SUBSIDIARIES

Consolidated Statements of Financial Condition

ASSETS	March 31, 1992 (Unaudited)	December 31, 1991
Cash	$ 2,790,291	2,125,616
Federal funds sold	13,026,717	10,106,039
Mortgage-backed securities (market value $34,700,000 - 1992 and $44,500,000 - 1991)	33,764,924	43,147,173
Loans receivable, net	138,318,513	145,720,425
Loans held for sale	25,430,940	12,449,379
Accrued interest receivable, net	1,514,614	1,667,167
Real estate, net	1,808,745	2,183,522
Premises and equipment, net	3,407,866	3,375,800
Federal Home Loan Bank stock, at cost	2,140,700	1,735,700
Other assets	3,069,492	1,569,327
	$225,272,802	224,080,148
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits	$165,291,406	168,720,965
Advances from Federal Home Loan Bank	40,512,500	34,612,500
Reverse repurchase agreements	5,040,000	7,452,000
Accrued interest payable	3,275,944	3,381,696
Advance payments by borrowers for taxes and insurance	2,066,910	1,126,725
Other liabilities	1,598,016	1,747,407
Total Liabilities	217,784,776	217,041,293
Stockholders' Equity:		
Serial preferred stock, 400,000 shares authorized and unissued	---	---
Common stock, 600,000 shares authorized; 89,731 shares issued and outstanding at 3/31/92 and 12/31/91	89,731	89,731
Additional paid-in capital	2,123,829	2,123,829
Retained earnings, substantially restricted	5,274,466	4,825,295
Total Stockholders' Equity	7,488,026	7,038,855
	$225,272,802	224,080,148

MACKINAC FINANCIAL CORPORATION
AND SUBSIDIARIES
Consolidated Statements of Operations
(Unaudited)

	Three Months Ended March 31,	
	1992	1991
Interest income:		
Interest on loans	$3,814,693	3,982,007
Interest on mortgage-backed securities	735,854	1,167,839
Interest and dividends on investments	161,414	249,163
Total interest income	4,711,961	5,399,009
Interest expense:		
Interest on deposits	2,192,139	3,011,379
Interest on borrowings	648,026	709,988
Total interest expense	2,840,165	3,721,367
Net interest income	1,871,796	1,677,642
Provision for loan losses	44,000	35,000
Net interest income after provision for loan losses	1,827,796	1,642,642
Other income (expense):		
Fees and service charges	47,306	67,918
Loan servicing income	386,043	352,699
Fees recognized on sale of loans	141,284	48,797
Gains on sale of mortgage-backed securities	93,470	---
Real estate operations, net	(43,251)	(51,998)
Other, net	27,201	18,333
Total other income	652,053	435,749
General and administrative expenses:		
Compensation and employee benefits	1,114,712	875,208
Occupancy expense, net	248,728	128,820
Advertising	9,744	20,339
Data processing expense, net	107,633	100,717
Federal Insurance expense	96,508	95,470
Other, net	467,989	346,721
Total gross general and administrative expenses	2,045,314	1,567,275
Loan costs capitalized	(248,636)	(68,553)
Total net general and administrative expenses	1,796,678	1,498,722
Net income before Federal income taxes	683,171	579,669
Federal income taxes	234,000	187,000
Net income	$ 449,171	392,669
Earnings per common share:		
Net income	$ 5.01	4.38

AND SUBSIDIARIES

Consolidated Statements of Stockholders' Equity
(Unaudited)

	Common Stock	Paid-in Capital	Retained Earnings Substantially Restricted	Total Stock-holders' Equity
Balance, December 31, 1990	$89,731	2,123,829	3,105,855	5,319,415
Net income for the year 1991	---	---	1,719,440	1,719,440
Balance, December 31, 1991	89,731	2,123,829	4,825,295	7,038,855
Net income for three months ended March 31, 1992	---	---	449,171	449,171
Balance, March 31, 1992	$89,731	2,123,829	5,274,466	7,488,026

Consolidated Statements of Cash Flows
(Unaudited)

Increase (Decrease) in Cash and Cash Equivalents	Three Months Ended March 31, 1992	1991
Net cash flows from operating activities:		
Net Income	$ 449,171	392,669
Adjustments to reconcile net increase to net cash from operating activities:		
Depreciation and amortization	81,663	77,339
Provision for losses on loans	44,000	35,000
(Increase) decrease in accrued interest receivable	152,553	(164,600)
(Decrease) increase in accrued interest payable	(105,752)	(377,797)
(Increase) decrease in other assets	(1,500,165)	(389,033)
(Decrease) increase in other liabilities	(149,391)	344,934
Net cash used by operating activities	(1,027,921)	(81,488)
Cash flows from investing activities:		
Net decrease in short term investment securities	---	(2,039,419)
Sales of mortgage-backed securities	2,873,328	1,259,562
Principal repayments on mortgage-backed securities	6,508,921	4,978,533
Sales of loans	38,845,167	13,072,311
Loan principal repayments	7,847,419	2,383,131
Loans originated	(52,316,235)	(13,710,549)
Increase (decrease) in real estate	374,377	(270,964)
Investment in premises and equipment	(113,729)	14,095
Investment in Federal Home Loan Bank Stock	(405,000)	---
Net cash provided by investing activities	3,614,648	5,686,700
Cash flows from financing activities:		
Net increase in short-term deposits	4,522,306	4,712,719
Net decrease in time-deposits	(7,951,865)	(6,374,956)
Proceeds from Federal Home Loan Bank advances	8,900,000	800,000
Repayments of Federal Home Loan Bank advances	(3,000,000)	(600,000)
Decrease in reverse repurchase agreements	(2,412,000)	(6,179,319)
Net increase in mortgage escrow funds	940,185	809,406
Net cash provided (used) by financing activities	998,626	(6,832,150)
Net increase (decrease) in cash and cash equivalents	3,585,353	(1,226,938)
Cash and cash equivalents at December 31	12,231,655	15,957,034
Cash and cash equivalents at March 31	$15,817,008	$14,730,096
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest	2,945,917	4,099,164
Federal income taxes	425,000	385,000
Mortgage loans securitized	---	6,825,329

MACKINAC FINANCIAL CORPORATION
AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements

(1) Basis of Presentation

On April 23, 1991, Mackinac Financial Corporation (the "Company") became the holding company for Detroit Savings Bank, F.S.B. (the "Savings Bank"), acquiring all of the issued and outstanding common stock of the Savings Bank. As a result of the reorganization of the Savings Bank, the Company became the successor issuer for the common stock of the Savings Bank. Consequently, the financial information through April 23, 1991 which is contained in the accompanying consolidated financial statements (the "Financial Statements") relate only to the operations of the Savings Bank. Because substantially all of the Company's assets and operations are the assets and operations of the Savings Bank and the subsidiaries of the Savings Bank, the financial information of the Company and the financial information of the Savings Bank are comparative.

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and do not include all disclosures required by generally accepted accounting principles for complete financial statements. In the opinion of management of Mackinac Financial Corporation, the financial statements reflect all adjustments (consisting of normal recurring accruals) necessary to present fairly the financial position of the Corporation and the results of operations and cash flows for the interim period.

These Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and Notes thereto, for the year ended December 31, 1991, included in Mackinac Financial Corporation's Annual Report and Form 10-K as of and for the year ended December 31, 1991.

(2) Principles of Consolidation

The consolidated financial statements include the accounts of Mackinac Financial Corporation, Detroit Savings Bank, F.S.B., (a wholly-owned subsidiary of Mackinac Financial Corporation), Mackinac Corporation and Mackinac Realty, Inc. (wholly-owned subsidiaries of Detroit Savings Bank, F.S.B.) and Mackinac Agency, Inc. (a wholly-owned subsidiary of Mackinac Corporation). All material intercompany transactions and balances are eliminated in consolidation.

Management's Discussion and Analysis

(1) Liquidity - The Office of Thrift Supervision ("OTS") presently requires insured institutions to maintain a 5% minimum liquidity ratio of cash and eligible investments to savings deposits and short-term borrowings. Detroit Savings Bank ("DSB") has normally exceeded this requirement. Liquidity (and the liquidity ratio) increased from $12,198,528 (6.30%) at December 31, 1991 to $15,751,983 (8.14%) at March 31, 1992.

(2) i. Capital Resources - As of March 31, 1992 the Corporation had no material commitments for capital expenditures.

ii. Trends in Capital Resources - Funding requirements for normal operations are planned to be met primarily through savings, possible loan sales, loan prepayments and borrowings.

Because Detroit Savings Bank did not meet the new capital standards imposed by FIRREA in 1989, the Savings Bank filed a Capital Plan with the OTS projecting compliance with the new capital requirements by the end of 1991 through the continuation of operating earnings.

DSB met the approved Capital Plan interim capital ratio targets in all material respects through December 31, 1991. Because of the proposed increase in the core capital requirement to 4% or more, the OTS requested DSB to file a Capital Plan Extension in July, 1991. DSB filed the Capital Plan extension in August, 1991 which projected compliance with the 4.0% core capital target by mid-1993 through normal operating earnings. The plan extension was approved by the OTS in January, 1992. If Detroit Savings Bank fails to comply with the Capital Plan Extension the Director of the OTS, through enforcement proceedings or otherwise, could require DSB to take corrective action.

As of March 31, 1992 Detroit Savings Bank's capital levels and ratios relative to its minimum capital requirements were as follows:

Type of Capital	Amount	Percentage
Tangible Capital	$ 7,456,000	3.31%
Tangible Capital Requirement	3,378,000	1.50%
Excess	4,078,000	1.81%
Core Capital	7,456,000	3.31%
Core Capital Requirement	6,757,000	3.00%
Excess	699,000	0.31%
Risk-Based Capital	8,783,000	7.61%
Risk-Based Capital Requirement	8,305,000	7.20%
Excess	478,000	0.41%

DSB in all material respects met the approved Capital Plan Extension interim capital ratio targets through March 31, 1992 and is currently in full capital compliance. In order to meet the proposed core capital requirement increase earlier and accelerate capital growth, Mackinac Financial Corporation completed a $1.5 million bank borrowing with the proceeds invested as capital in Detroit Savings Bank in April 1992. The borrowing increased Detroit Savings Bank's tangible and core capital ratios to more than 4% and its risk-based capital ratio to more than 9% and could eliminate the necessity of operating under the restrictions imposed by a Capital Plan.

(3) Results of Operations

Quarter ended March 31, 1992 Compared to Quarter Ended March 31, 1991

Net income for the quarter ended March 31, 1992 was $449,000 compared to $393,000 for the quarter ended March 31, 1991. Net interest income increased by $185,000 primarily due to an increase in the net interest rate spread from 2.77% for the first quarter of 1991 to 3.15% for the first quarter of 1992. Other Income increased $216,000 due in part to a $92,000 increase in fees recognized on the sale of a much larger volume of fixed rate residential loan originations in the first quarter of 1992 than in the similar period in 1991. Additionally DSB sold all of its remaining fixed rate mortgage backed securities ($2.9 million) held for investment for asset/liability management purposes in 1992 for a gain of $93,000.

General and administrative expenses increased $478,000 primarily due to the additional manpower and equipment required to handle the larger lending and loan servicing volumes. The expense increase was partially offset by a $180,000 increase in capitalized loan origination expenses due to the higher volume of loan originations.

Loan closings for the quarter were $52.2 million compared to $14.6 million for the first quarter of 1991 and consisted of virtually all residential loans in both reporting periods.

90% of the loans closed were fixed rate loans which are almost always sold to minimize interest rate risk. Loans serviced for others increased to $220 million at March 31, 1992 from $148 million at March 31, 1991. ($187 million at December 31, 1991)

Loan Commitments

As of March 31, 1992 Detroit Savings Bank had outstanding commitments to originate loans of approximately $26.2 million and commitments to sell loans of approximately $20.2 million. The commitments to originate loans included 17.6 million of fixed rate single family residential loans with a weighted average interest rate of 8.5% and 8.6 million of adjustable rate single family residential loans with a weighted average interest rate of 7.6%.

Other Events

In April, 1992 Mackinac Financial Corporation completed a holding company borrowing of $1.5 million and invested the proceeds as capital in Detroit Savings Bank. The stock of the Savings Bank was pledged as collateral for the loan and dividends from DSB to MFC will be required to retire the debt. In early May, 1992 the Corporation declared a cash dividend of $0.50 per share payable May 26, 1992.

Classified Assets

The following table sets forth information regarding non-performing assets, non-accrual loans and other loans of concern at the dates indicated. At December 31, 1991 and March 31, 1992, DSB had one restructured loan with a balance of $299,000 included in non-accruing commercial real estate loans below that met the definition of a restructured loan within the meaning of SFAS No. 15.

Non-Performing Assets	At March 31, 1992	$(000)	At December 31, 1991
Loans accounted for on a non-accrual basis: (1)			
Real Estate:			
Residential	$ 909		$ 731
Commercial	559		671
Other	2		2
Total	$1,470		$1,404
REO/REJ	1,795		2,118
Total Non-Performing Assets	$3,265		$3,522
Percentage of total assets	1.45%		1.57%
Other Loans of Concern			
Real Estate:			
Residential	$ 389		$ 389
Commercial	--		--
Other	--		--
Total	389		389
Total Non-Performing Assets and other loans of Concern:	$3,654		$3,911
Percentage of total assets	1.62%		1.75%

(1) Includes all loans 90 days or more contractually delinquent.

MACKINAC FINANCIAL CORPORATION
AND SUBSIDIARIES

PART II

ITEM 1. **Legal Proceedings**

No material changes or developments during the quarter.

ITEM 2. **Changes in Securities**

On April 30, 1992, Mackinac Financial Corporation entered into a Term Loan Agreement with First of America Bank-Southeast Michigan, N.A. under which it borrowed $1,500,000. Principal and interest are payable monthly over a 5 year term. As security for the loan, Mackinac Financial Corporation has pledged its stock in Detroit Savings Bank. Among other restrictions, Mackinac Financial Corporation may not pay cash dividends in an amount which exceeds in the aggregate 1/3 of its net income after taxes for the applicable period without the consent of the Bank.

ITEM 3. **Defaults Upon Senior Securities**

Not applicable

ITEM 4. **Submission of Matters to a Vote of Security Holders**

At Mackinac Financial Corporation's Annual Meeting of Stockholders held on April 24, 1992, Dwight P. Black and John E. Park were elected to three year terms as directors. William E. Baubie, Douglas F. Roby, Samuel B. Sherer, Sr., Walter B. Robinson and W. Gerald Warren will continue to serve as directors. In addition, the following matters were submitted to a vote of the shareholders:

1. The ratification of KPMG Peat Marwick as DSB's auditors for the 1992 fiscal year.

	SHARES	%
For	76,650	85%
Against	0	0%
Abstain	0	0%

2. The approval of a long term executive officer's incentive plan.

	SHARES	%
For	70,137	78%
Against	6,021	7%
Abstain	492	1%

ITEM 5. **Other Materially Important Events**

None

ITEM 6. **Exhibits and Reports on Form 8-K**

(a) Exhibits
  1. Executive Officers Incentive Plan
  2. Term Loan Agreement with First of America Bank-Southeast Michigan, N.A. dated as of April 30, 1992.

(b) Reports on Form 8-K. No reports on Form 8-K have been filed during the quarter for which this report is filed.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MACKINAC FINANCIAL CORPORATION

Date: May 14, 1992 By: /s/SAMUEL B. SHERER
Samuel B. Sherer
President

Date: May 14, 1992 By: /s/GORDON W. CREER
Gordon W. Creer
Treasurer

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MACKINAC FINANCIAL CORPORATION

Date: May 14, 1992
By: ______________________
Samuel B. Sherer
President

Date: May 14, 1992
By: ______________________
Gordon W. Creer
Treasurer

INDEX TO EXHIBITS

4. Term Loan Agreement dated as of April 30, 1992 with First of America Bank-Southeast Michigan, N.A.

10. Executive Officers Incentive Plan

TERM LOAN AGREEMENT

between

FIRST OF AMERICA BANK - SOUTHEAST MICHIGAN, N.A.

and

MACKINAC FINANCIAL CORPORATION

Dated as of April 30, 1992

11

TABLE OF CONTENTS

(The Table of Contents is not part of
the Term Loan Agreement and is included only
as a convenient reference.)

Page

SECTION 1
Definitions and Interpretation

1.1. Definitions 1
1.2 Accounting Terms 2
1.3 Table of Contents and Captions 2
1.4 Certain References in Text 3

SECTION 2
Amount and Terms of Loan

2.1. Loan, Note and Payments 3
2.2. Security 3

SECTION 3
Use of Proceeds

SECTION 4
Representations and Warranties of Borrower

4.1. Corporate Organization and Authority 4
4.2. Capitalization of Borrower and DSB 4
4.3. Financial Statements 5
4.4. Full Disclosure 5
4.5. Title to Properties 5
4.6. Borrowing is Legal and Authorized 5
4.7. No Defaults 6
4.8. Government Consent 6
4.9. Taxes 6
4.10. Compliance with Law 6
4.11. Restrictions on Borrower and DSB 7
4.12. Litigation 7
4.13. ERISA Matters 7
4.14. Liabilities 8
4.15. Environmental Laws 8
4.16. Subsidiaries 8

SECTION 5
Closing Conditions

5.1. Note and Pledge Agreement 9
5.2. Opinion of Counsel 9
5.3. Documentation 9
5.4. Officer's Certificate 9

5.5. Resolutions.................................. 9
5.6. Good Standing Certificate...................... 9
5.7. Environmental Surveys.......................... 9
5.8 Compliance with Capital Plan & OTS Regulations.... 9
5.9. Other Requirements............................. 9

SECTION 6
Borrower Business Covenants

6.1. Payment of Taxes and Claims.................... 10
6.2. Negative Pledge................................ 10
6.3. Maintenance of Properties and Corporate Existence. 10
6.4. Fundamental Changes............................ 11
6.5. Contingent Liabilities......................... 11
6.6. Redemption of Stock............................ 12
6.7. Ownership...................................... 12
6.8. ERISA Matters.................................. 12
6.9. Required DSB Dividends......................... 12
6.10. Other Borrowings.............................. 12
6.11. Cash Dividends and Other Distributions........ 12
6.12. Loans and Advances............................ 13
6.13. Information to be Provided.................... 13

SECTION 7
Events of Default

7.1. Nature of Events............................... 14
7.2. Remedies....................................... 15
7.3. Security....................................... 16

SECTION 8
Miscellaneous Covenants

8.1. Notices.. 16
8.2. Reproduction of Documents...................... 17
8.3. Survival....................................... 17
8.4. Successors and Assigns......................... 17
8.5. Amendment and Waiver........................... 17
8.6. Counterparts................................... 18
8.7. Governing Law.................................. 18
8.8. Waiver of Jury Trial........................... 18

/3

TERM LOAN AGREEMENT

This is a Term Loan Agreement dated as of April 30, 1992, between FIRST OF AMERICA BANK - SOUTHEAST MICHIGAN, N.A. ("the Bank"), 645 Griswold Street, P.O. Box 2659, Detroit, Michigan 48226, and MACKINAC FINANCIAL CORPORATION, a Michigan corporation ("the Borrower"), 511 Woodward Avenue, Detroit, Michigan 48226.

SECTION 1
Definitions and Interpretation

1.1. Definitions. In addition to any terms that are defined elsewhere in this Agreement, the following terms are used in this Agreement with the respective meanings given in this Section 1.1, unless the context clearly requires a different meaning.

"Base Rate" means the interest rate established as such by the Bank from time to time based on its consideration of economic, money market, business and competitive factors. The Base Rate is not necessarily the Bank's most-favored or lowest rate.

"Capital Plan" means DSB's capital plan filed with the OTS on December 1, 1989, as approved by the OTS on April 18, 1990, including the OTS approval conditions accepted by DSB's Board of Directors on May 2, 1990, together with an extension approved by the OTS in January 1992.

"Closing" means the making of the Loan, and "Closing Date" means the date on which the Closing occurs.

"DSB" means Detroit Savings Bank, a federal savings bank wholly owned by the Borrower.

"Environmental Surveys" means properly completed Loan Application Environmental Questionnaires (on forms provided by the Bank), signed by the President of the Borrower and the President of DSB.

"ERISA means the Employee Retirement Income Security Act or 1974, as amended.

"Financial Statements" means, collectively, (a) the consolidated statements of financial condition of the Borrower and subsidiaries (including DSB) as of December 31, 1991 and 1990, and the related consolidated statements of operations, changes in stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 1991, with the report thereon of KPMG Peat Marwick, and (b) the consolidated statements of financial condition of DSB and subsidiaries as of December 31, 1990 and 1989, and the related consolidated statements of operations, changes in stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 1990, with the report thereon of KPMG Peat Marwick.

"Loan" means a loan of $1,500,000 by the Bank to the Borrower on the terms and subject to the conditions provided in this Agreement, including the attached exhibits.

"Loan Documents" means, collectively, this Agreement, the Note, the Pledge Agreement and any documents delivered to the Bank by or on behalf of the Borrower or DSB pursuant to any of the foregoing.

"Maturity Date" means May 1, 1997.

"Note" means the Borrower's Term Note dated the Closing Date, in the original principal amount of the Loan, substantially in the form of EXHIBIT A, and any note given in substitution, renewal or extension.

"OTS" means the Office of Thrift Supervision.

"Payment Date" means the first day of each month, commencing on June 1, 1992 and ending on the Maturity Date.

"Person" or "person" means an individual or a corporation, partnership or other entity.

"Pledge Agreement" means the Stock Pledge Agreement dated as of April 30, 1992, between the Borrower and the Bank, substantially in the form of EXHIBIT B, granting the Bank a security interest in all of the outstanding stock of DSB to secure the Loan.

"Required DSB Dividends" means cash dividends declared and paid by DSB at such times and in such amounts as will provide the Borrower with the funds which, when added to any other funds of the Borrower that are available for such purpose, will be sufficient to enable the Borrower to make timely payment of the principal of and interest on the Note coming due before the next reasonably anticipated payment of a Required DSB Dividend.

1.2 Accounting Terms. All accounting terms not specifically defined herein shall be construed in accordance with generally accepted accounting principles.

15

1.3. Table of Contents and Captions. The table of contents and the captions of the various sections and paragraphs of this Agreement are for convenience of reference only, but they are not part of this Agreement, and they shall not be deemed in any manner to modify, explain, enlarge or restrict any of its provisions.

1.4. Certain References in Text. References to exhibits are to the several exhibits attached to this Agreement at the time it is executed and delivered by the parties. References to sections or paragraphs are to sections or paragraphs of this Agreement unless otherwise indicated. "Herein", "hereof", "hereof" and similar words refer to this Agreement in its entirety and not to any particular section, paragraph or other part of this Agreement.

SECTION 2
Amount and Terms of Loan

2.1. Loan, Note and Payments. The Bank agrees to make the Loan on the terms and subject to the conditions of this Agreement.

(a) The Loan will be evidenced by the Note, which shall bear interest on the unpaid principal balance thereof at a fluctuating rate per annum equal to 0.50% above the Base Rate but not more than 10.00% per annum. For purposes of the Loan, such rate shall change automatically and without notice to the Borrower, effective as of the effective date of each announced change by the Bank in the Base Rate. Interest shall be calculated on the basis of a 360-day year, but for the actual number of days elapsed during each interest calculation period.

(b) Interest on the Note shall be due and payable monthly in arrears, and principal of the Note shall be due and payable in monthly installments of $25,000 each, on each Payment Date until the Maturity Date, when the entire principal balance and all interest then due shall be paid in full.

(c) So long as the Borrower is not in default under this Agreement or the Note, the Borrower shall have the right, on any Payment Date, to prepay whole installments of the principal of the Note without penalty. All prepayments of principal shall be applied in inverse order of Payment Dates.

2.2. Security. Payment of the Note shall be secured by the Borrower's pledge to the Bank of 100% of the outstanding stock of DSB pursuant to the Pledge Agreement.

16

SECTION 3
Use of Proceeds

The proceeds of the Loan shall be contributed by the Borrower to DSB on the Closing Date for the purpose of increasing the equity capital of DSB.

SECTION 4
Representations and Warranties of Borrower

The Borrower represents and warrants to the Bank as follows:

4.1. Corporate Organization and Authority.

(a) The Borrower is a corporation duly organized, validly existing and in good standing under the laws of the State of Michigan.

(b) DSB is a federal savings bank, duly organized, validly existing and in good standing under the laws of the United States.

(c) The Borrower and DSB have all requisite power and authority and all necessary licenses and permits to own and operate their properties and to carry on their businesses as and where now conducted and currently proposed to be conducted, except where the failure to do so will not have a material adverse effect on the business, properties, prospects, profits or condition (financial or otherwise) of the Borrower or DSB.

(d) The Borrower and DSB are each duly qualified to do business and in good standing in each jurisdiction in which its ownership or possession of property (as lessee or otherwise) or its business activities require such qualification, except where the failure to do so will not have a material adverse effect on the business, properties, prospects, profits or condition (financial or otherwise) of the Borrower or DSB.

4.2 Capitalization of Borrower and DSB. The capital stock that the Borrower is authorized to issue consists entirely of 600,000 shares of Common Stock (of which only 89,731 shares are issued and outstanding) and 400,000 shares of serial preferred stock (none of which are issued and outstanding). The capital stock that DSB is authorized to issue consists entirely of 6,000,000 shares of Common Stock, par value $1.00 per share (of which only 100 shares are issued and outstanding), and 4,000,000 shares of serial preferred stock (none of which are issued and outstanding). There are no outstanding options, warrants or other agreements or undertakings of any kind that would require either the Borrower or DSB to issue any

17

additional shares of stock of any class or series or to issue any rights convertible to or exchangeable for any such stock, other than shares of stock of the Borrower awarded or reserved for awards under the Borrower's Executive Officer's Incentive Plan, a true and complete copy of which has been provided to the Bank.

4.3. Financial Statements. The Borrower has furnished the Financial Statements to the Bank. The Financial Statements have been prepared in accordance with generally accepted accounting principles consistently applied and present fairly the Borrower's and DSB's financial condition as of the relevant dates thereof and the results of their operations for the periods then ended. There have been no material adverse changes in the Borrower's or DSB's financial condition since December 31, 1991.

4.4. Full Disclosure. Neither the Financial Statements, this Agreement nor any written statement furnished by the Borrower to the Bank in connection with obtaining the Loan (including, without limitation, the Environmental Surveys) contains any untrue statement of a material fact, or omits to state a material fact, necessary to make the statements contained therein or herein not misleading in any material respect. There is no fact which the Borrower has not disclosed to the Bank in writing which materially adversely affects the properties, business, prospects, profits or condition (financial or otherwise) of the Borrower or DSB or the ability of the Borrower to perform its obligations under any Loan Document.

4.5. Title to Properties. Except as previously disclosed to the Bank in writing and except for (i) leases entered into in the ordinary course of business for miscellaneous office equipment, (ii) pledges by DSB of loans and securities to the Federal Home Loan Bank to secure advances in the ordinary course of DSB's business and (iii) security interests arising from reverse repurchase agreements entered into by DSB in the ordinary course of its business, the Borrower and DSB each has good and marketable title to all property which it purports to own, free from any liens and encumbrances.

4.6. Borrowing is Legal and Authorized.

(a) The Board of Directors of the Borrower has duly authorized the execution, delivery and performance of the Loan Documents, and each Loan Document and the Note constitutes a valid and binding obligation of the Borrower enforceable in accordance with its terms.

(b) The execution, delivery and performance of the Loan Documents and the compliance by the Borrower with all of the provisions thereof (i) are within the corporate powers of the Borrower, (ii) will not conflict with, result in any breach of any of the provisions of, constitute a default under or result in the creation of any lien or encumbrance upon any property of the Borrower under, the provisions of any agreement, charter document, bylaw or other instrument to which the Borrower is a party or by which it may be bound and (iii) are legal and will not violate or conflict with any law, rule, regulation, order, writ, judgment, injunction, decree, determination or award currently in effect.

(c) Except for limitations in the Capital Plan, there are no limitations in any agreement or instrument to which the Borrower is now a party or by which the Borrower may be bound with respect to the payment of principal of or interest on any indebtedness of the Borrower, including the Note.

4.7. No Defaults. No event has occurred and is continuing that would constitute an Event of Default (as defined in Section 7), determined without regard for any requirement for the giving of notice or the passage of time. The Borrower is not in violation in any material respect of any term or provision of any agreement, charter document, bylaw or other instrument to which it is a party or by which it may be bound.

4.8. Government Consent. Neither the nature of the Borrower or of its business or properties, nor any relationship between the Borrower and any other Person, nor any circumstance in connection with the execution, delivery or performance of the Loan Documents, is such as to require a consent, approval or authorization of, or filing, registration or qualification with, any governmental authority on the part of the Borrower as a condition to the execution, delivery and performance of the Loan Documents, except for such as are required by the OTS or any other federal agency, of which those relating to execution, delivery and (except for payment of the Required DSB Dividends for periods subsequent to the quarter ended March 31, 1992) performance have been obtained and are in force.

4.9. Taxes.

(a) All tax returns required to be filed by the Borrower and DSB in any jurisdiction have been filed, and all taxes, assessments, fees and other governmental charges upon the Borrower or DSB or their income or properties, which are due and payable, have been paid. The Borrower does not know of any proposed additional tax or other assessments against it, DSB or their income or properties in connection with any prior period, except for additional taxes or assessments that would not have a material adverse effect on the business, properties, prospects, profits or condition (financial or otherwise) of the Borrower or DSB.

(b) The provisions for taxes on the books of the Borrower and DSB for their current fiscal periods are adequate.

4.10. Compliance with Law. The Borrower and DSB (a) are not in violation of any laws, ordinances or governmental rules or regulations to which they are subject and (b) have not failed to obtain any licenses, permits, franchises or other governmental authorizations necessary to the ownership of their properties or to the conduct of their businesses, which violation or failure might materially and adversely affect the business, prospects, profits, properties or condition (financial or otherwise) of the Borrower or DSB.

4.11. Restrictions on Borrower and DSB. Neither the Borrower nor DSB are a party to any contract or agreement, or subject to any charter, bylaw or other corporate restriction, which materially adversely affects the business, prospects, profits, properties or conditions (financial or otherwise) of the Borrower or DSB. The Borrower is not a party to any contract or agreement which restricts the right or ability of the Borrower to incur indebtedness, other than this Agreement. Except as heretofore disclosed to the Bank in writing or as described in clause (i), (ii) or (iii) of Section 4.5, neither the Borrower nor DSB has agreed or consented to cause or permit in the future (upon the happening of a contingency or otherwise) any of their property, whether now owned or hereafter acquired, to be subject to a lien or encumbrance, other than the security interest granted in the Pledge Agreement.

4.12. Litigation. There is no action, proceeding or investigation pending or, to the Borrower's knowledge, threatened (or any basis therefor known to the Borrower) which questions the validity of any of the Loan Documents, or any action taken or to be taken pursuant hereto or thereto, or which might result, either in any one case or in the aggregate, in any material adverse change in the business, prospects, profits, properties or condition (financial or otherwise) of the Borrower or DSB or in any material liability on the part of the Borrower or DSB.

4.13. ERISA Matters. Without in any way limiting the scope of any other provision herein, neither the Borrower nor any organization which together with the Borrower is a member of a controlled group (an "Affiliate") as provided in section 414(b) of the Internal Revenue Code of 1986, as amended ("the Code"), has incurred (a) any material accumulated funding deficiency within the meaning of ERISA; or (b) any material liability to the Pension Benefit Guaranty Corporation established under ERISA (or any successor thereto under ERISA) in connection with any employee benefit plan within the meaning of Section 3(3) of ERISA established or maintained by the Borrower or any Affiliate; nor has the Borrower or any Affiliate engaged in or has knowledge of any prohibited transaction, within the meaning of Section 4975 of the Code, which would materially adversely affect the business, prospects, profits, properties or condition (financial or otherwise) of the Borrower. The Borrower is not in breach of any responsibility, obligation or duty imposed by ERISA upon the Borrower as a fiduciary of any employee benefit plan (if the Borrower is considered a fiduciary pursuant to ERISA or the terms of any employee benefit plan), within the meaning of Section 3(3) of ERISA, or to which it otherwise is subject under the terms of any such plan which would adversely and materially affect the business of the Borrower.

4.14. Liabilities. The Borrower and DSB do not have any liabilities, direct or contingent, except (a) as disclosed in the Financial Statements as at and for the period ended December 31, 1991; (b) as disclosed to the Bank in writing before the execution of this Agreement; and (c) liabilities arising in the ordinary course of business after December 31, 1991.

4.15. Environmental Laws. No release, emission or discharge into the environment of "hazardous substances" (as defined in the Comprehensive Environmental Response, Compensation and Liability Act) or "hazardous waste" (as defined in the Solid Waste Disposal Act) or "hazardous waste" or "toxic pollutants" (as defined in the Clear Air Act or the Toxic Substances and Control Act) has occurred or is currently occurring in excess of federally permitted releases or reportable quantities, or other concentrations, standards or reportable quantities, or other concentrations, standards or limitations under the foregoing laws or under any other federal, state or local laws or regulations, in connection with any aspect of the business of the Borrower or DSB. Except as previously disclosed in writing to the Bank, the Borrower has no knowledge of any past or existing violations by the Borrower or DSB of any environmental laws, ordinances or regulations issued by any federal, state or local governmental authority.

4.16. Subsidiaries. DSB is the only subsidiary of the Borrower. All of the outstanding stock of DSB is owned, beneficially and of record, by the Borrower free from all security interests, liens and encumbrances of any kind. There are no outstanding options, warrants or other rights, the exercise or which would require DSB to issue any additional shares of stock of DSB or any rights convertible to or exchangeable for any such stock. The Borrower has full power to pledge such stock to the Bank as contemplated by this Agreement and the Pledge Agreement.

21

SECTION 5
Closing Conditions

The obligation of the Bank to make the Loan is subject to the satisfaction of the following conditions at or before the Closing:

5.1. Note and Pledge Agreement. The Borrower shall have executed and delivered the Note and the Pledge Agreement.

5.2. Opinion of Counsel. The Bank shall have received a written opinion from counsel for the Borrower with respect to the matters set forth in EXHIBIT C.

5.3. Documentation. All documentation and forms required under the Loan will be in the form and substance acceptable to the Bank and the Bank's counsel.

5.4. Officer's Certificate. The Bank shall have received an officer's certificate, dated the Closing Date and substantially in the form of EXHIBIT D, signed by the President of the Borrower.

5.5. Resolutions. The Bank shall have received a certified copy of the resolutions of the Board of Directors of the Borrower authorizing the execution, delivery and performance by the Borrower of the Loan Documents.

5.6. Good Standing Certificate. The Borrower shall have provided the Bank with a certificate issued by the State in which the Borrower is organized, stating that the Borrower is in "good standing" within that jurisdiction. Such certificate shall be dated not more than 30 days before the Closing Date.

5.7 Environmental Surveys. The Bank shall have received the Environmental Surveys respecting all real property in which the Borrower or DSB has any interest as requested by the Bank (other than DSB's interest as mortgagee under mortgages taken by DSB to secure loans made in the ordinary course of its business as a commercial or residential lender), and the matters disclosed therein shall be acceptable to the Bank.

5.8. Compliance with Capital Plan & OTS Regulations. The Bank shall have received written evidence, in form and substance satisfactory to the Bank, that DSB's payment of a Required DSB Dividend in the amount of $146,000, as declared by DSB's Board of Directors on April 24, 1992 for the quarter ended March 31, 1992, has been approved by the OTS (or that the OTS does not object to such declaration and payment) and that such declaration and payment is not prohibited or limited by the Capital Plan or any regulation or order of the OTS or otherwise.

5.9. Other Requirements. The Bank shall have been provided such other certificates, documents and other items as the Bank, in its sole discretion, deems necessary in connection with the Loan.

SECTION 6
Borrower Business Covenants

The Borrower covenants that on and after the date of this Agreement, so long as any principal of or interest on the Note remains unpaid:

6.1. Payment of Taxes and Claims. The Borrower shall pay, and cause DSB to pay, before they become delinquent (a) all taxes, assessments and governmental charges or levies imposed upon it or its income or property; and (b) all claims or demands of materialmen, mechanics, carriers, warehousemen, landlords, bailees and other like Persons which, if unpaid, might result in the creation of a lien or encumbrance upon its property, provided that (i) items of the foregoing description need not be paid while being contested in good faith and by appropriate proceedings diligently prosecuted, (ii) adequate book reserves have been established with respect thereto and (iii) the Borrower's and DSB's title to, and their rights to use, their property are not materially adversely affected thereby.

6.2 Negative Pledge. The Borrower shall not, and shall not permit DSB to, sell assign, transfer, grant a security interest in or otherwise hypothecate its mortgage servicing portfolio, any agreements or contracts governing such portfolio or any fees derived therefrom without the prior written consent of the Bank.

6.3. Maintenance of Properties and Existence. The Borrower shall, and shall cause DSB, at all times to:

(a) Property -- maintain the property of the Borrower and DSB in good condition and make all renewals, replacements, additions, betterments and improvements thereto which are deemed necessary by the Borrower;

(b) Insurance -- maintain, with financially sound and reputable insurers, insurance with respect to their properties and businesses against such casualties and contingencies, of such types (including, but not limited to, fire and casualty, public liability, products liability, larceny, embezzlement or other criminal misappropriation insurance) and in such amounts as is

73

customary in the case of corporations (or banks) of established reputations engaged in the some or a similar business and similarly situated;

(c) Financial Records -- keep true books of records and accounts in which full and correct entries will be made of all its business transactions, and reflect in its financial statements adequate accruals and appropriations to reserves, all in accordance with generally accepted accounting principles with respect to the Borrower and DSB;

(d) Corporate Existence and Rights -- do or cause to be done all things necessary (i) to preserve and keep in full force and effect the existence, rights and franchises of the Borrower and DSB, and (ii) to maintain, with respect to the Borrower, its status as a corporation duly organized and existing and in good standing under the laws of the state of its incorporation and, with respect to DSB, to maintain its status as a federal savings bank in good standing;

(e) Compliance with Law -- not be in violation of any laws, ordinances or governmental rules and regulations to which either of them is subject and will not fail to obtain any licenses, permits, franchises or other governmental authorizations necessary to the ownership of their properties or to the conduct of their businesses, which violation or failure might materially and adversely affect the business, prospects, profits, properties or condition (financial or otherwise) of the Borrower or DSB.

6.4. Fundamental Changes. The Borrower shall not, and shall not permit DSB to, (i) merge or consolidate with any Person, (ii) liquidate, wind-up or dissolve (or suffer any liquidation or dissolution), (iii) convey, sell, lease, transfer or otherwise dispose of, in one transaction or a series of transactions, all or any substantial part of its business or assets, whether now owned or hereafter acquired, other than sales of loans or securities by DSB in the ordinary course of its business, (iv) acquire by purchase or otherwise all or substantially all the business or assets of, or stock or other evidence of beneficial ownership of, any Person (other than those of a subsidiary), (v) make any material change in the nature of its business or in the methods by which it conducts business or (vi) amend its charter to create or authorize the creation of any class or series of stock other than the classes or series of stock now authorized in its charter.

6.5. Contingent Liabilities. The Borrower will not (and will not permit DSB to) guarantee, indorse or otherwise become responsible for or upon the obligations of others, except in the ordinary course of business (which ordinary course shall include, by way of illustration and not limitation, the issuance of letters of credit).

6.6. Redemption of Stock. The Borrower shall not redeem or acquire any of its own stock without the Bank's prior written consent, other than shares of its Common Stock acquired for purposes of the Borrower's Executive Officer's Incentive Plan.

6.7. Ownership. The Borrower shall maintain direct or indirect ownership, of record and beneficially, of not less than 100% of the outstanding stock of DSB.

6.8. ERISA Matters. The Borrower shall not, and shall cause DSB not to, voluntarily terminate any employee benefit plan or other plan (a "Plan") maintained for employees of the Borrower or DSB and covered by Title IV of ERISA, so as to result in any material liability of the Borrower to the Pension Benefit Guaranty Corporation ("PBGC"), enter into any Prohibited Transaction (as defined in Section 4975 of the Code and in ERISA) involving any Plan which results in any material liability to the PBGC, cause any occurrence of any Reportable Event (as defined in Title IV of ERISA) which results in any material liability to the PBGC, or allow or suffer to exist any event or condition which results in any material liability to the PBGC.

6.9. Required DSB Dividends. The Borrower shall take, and shall cause DSB to take, all actions required to obtain the approval of the OTS of the timely declaration and payment of each Required DSB Dividend and (subject only to applicable legal restrictions that remain despite the Borrower's and DSB's best efforts) shall cause DSB to declare and pay the Required DSB Dividends. The Borrower shall use the cash received from each Required DSB Dividend to pay (or make provision for the payment of) the principal of and interest on the Note coming due before the next reasonably anticipated payment of a Required DSB Dividends before using such cash for any other purpose, including (without limitation) payment of the Borrower's cash dividends permitted by Section 6.11.

6.10. Other Borrowings. The Borrower and DSB shall not incur any further indebtedness without the Bank's prior written consent; provided, however, DSB shall be permitted without the Bank's consent to incur indebtedness in the ordinary course of DSB's banking business including by way of illustration and not limitation, advances to DSB from the Federal Home Loan Bank and indebtedness of DSB represented by reverse repurchase agreements (both in the ordinary course of DSB's business).

25

6.11. Cash Dividends and Other Distributions. The Borrower shall not declare or pay any cash dividends, or make any other distributions of any kind to shareholders except for the issuance of stock dividends, without the prior written consent of the Bank, provided, however, that if no Event of Default exists and subject to Section 6.9, the Borrower may pay cash dividends for any fiscal year in an amount that do not exceed, in the aggregate, one-third of the Borrower's net income after taxes for the applicable period without such consent.

6.12. Loans and Advances. The Borrower will not make any loans or advances to any Person other than DSB.

6.13. Information to be Provided. The Borrower shall deliver the following to the Bank:

(a) concurrently with such filing, a copy of each monthly or quarterly thrift financial report filed by DSB with the OTS;

(b) within 30 days after the close of each quarter of its fiscal year, a statement signed by the president or chief financial officer of the Borrower certifying that the Borrower is in compliance with terms of this Agreement and the Pledge Agreement;

(c) concurrently with such filing or delivery, a copy of any and all forms and material filed by the Borrower with the OTS (with any information therein deemed by the OTS to be confidential deleted therefrom) or the Securities and Exchange Commission or delivered to the Borrower's security holders;

(d) within 90 days after the close of each the Borrower's fiscal years, beginning with the fiscal year ending December 31, 1992, the Borrower's audited consolidated and consolidating financial statements for such year, prepared in accordance with generally accepted accounting principles consistently applied, and the report thereon of KPMG Peat Marwick or other independent auditors acceptable to the Bank;

(e) within 90 days after the close of each DSB's fiscal years, beginning with the fiscal year ending December 31, 1992, DSB's audited financial statements for such year, prepared in accordance with generally accepted accounting principles consistently applied, and the report thereon of KPMG

26

Peat Marwick or other independent auditors acceptable to the Bank;

(f) within 45 days after the close of each of the first three quarters of DSB's fiscal year, beginning with the quarter ending June 30, 1992, DSB's unaudited interim financial statements showing the actual operating results of DSB for the portion of DSB's fiscal year up to the end of such quarter, including estimates of all adjustments necessary for a fair presentation of DSB's operations for such period, certified by DSB's chief financial officer as presenting fairly the results of DSB's operations for such period;

(g) within 30 days after the close of each quarter of DSB's fiscal year, beginning with the quarter ending June 30, 1992, a detailed report on DSB's mortgage servicing portfolio for such quarter and for that portion of DSB's fiscal year up to the end of such quarter;

(h) immediately upon becoming aware of any proposed or final regulation or order issued after the date hereof of the OTS or any other government regulatory body that would limit the ability of DSB to pay the Required DSB Dividends, a written description of such regulation or order and (as soon as it becomes available) a copy thereof;

(i) immediately upon becoming aware of the existence of any condition or event which constitutes an Event of Default, a written notice specifying the nature and period of existence thereof and what action the Borrower is taking or proposes to take with respect thereto;

(j) immediately upon the commencement thereof, written notice of any litigation instituted by or against the Borrower or DSB (including any arbitration proceeding) where the amount claimed exceeds $250,000 and of any proceedings before any governmental agency which would, if successful, materially affect the condition (financial or otherwise) of the Borrower or DSB; and

(k) at the request of the Bank, such other information as the Bank may from time to time reasonably require.

SECTION 7
Events of Default

7.1. Nature of Events. Each of the following events or conditions constitutes an "Event of Default":

(a) Failure by the Borrower to make any payment of principal of or interest on the Note on or before the date such payment is due.

(b) Failure by the Borrower to comply with any other provision of this Agreement, the Note or the Pledge Agreement and the continuance of such failure for ten days or more after written notice from the Bank.

(c) Any representation, warranty or other statement by or on behalf of the Borrower contained in any Loan Document is false or misleading in any material respect when made.

(d) The Borrower or DSB becomes insolvent or bankrupt, or makes an assignment for the benefit of creditors, or consents to the appointment of a trustee, receiver or liquidator.

(e) Bankruptcy, reorganization, arrangement, insolvency or liquidation proceedings are instituted by or against the Borrower or DSB, which proceedings are not dismissed or stayed within 60 days after they are instituted.

(f) A final judgment or judgments from which no further right of appeal exists, for the payment of $250,000 or more is or are outstanding against the Borrower or DSB, and any one of such judgments has been outstanding for more than 30 days from the date of its entry and has not been discharged in full or stayed.

(g) The occurrence of any event which, with the giving of notice, the passage of time or both, would result in the acceleration of the maturity of any indebtedness of the Borrower in excess of $250,000 in the aggregate.

(h) The default by any insurer or other surety for the Borrower on any obligation or liability to the Bank in excess of $250,000 in the aggregate.

(i) The Bank deems itself insecure with respect to the obligations evidenced by the Note.

7.2. Remedies. If an Event of Default has occurred and is continuing, the Bank may immediately exercise any right, power or remedy permitted to the Bank by law, and shall have, in particular and without limiting the generality of the foregoing, the right to declare the entire principal of and all interest accrued on the Note to be forthwith due and payable, without any presentment, demand, protest or other notice of any kind, all of which are hereby expressly waived by the Borrower. No course of dealing on the part of the Bank nor any delay or failure on the part of the Bank to exercise any right shall operate at a waiver of such right or otherwise prejudice the Bank's rights, powers and remedies.

7.3. Security. In addition to the security interest granted to the Bank pursuant to the Pledge Agreement, any and all deposits or other sums at any time credited by or due from the Bank to the Borrower shall at all times constitute security for the Borrower's indebtedness to the Bank and may be set off against any indebtedness to the Bank, whether or not it is then due, or other security held by the Bank which is considered by the Bank to be adequate. Any and all instruments, documents, policies, certificates of insurance, securities, books, accounts receivable, choses in action, chattel paper, cash, property and the proceeds thereof (whether provided for herein or the proceeds thereof) owned by the Borrower or in which the Borrower has an interest, which now or hereafter are at any time in the possession or control of the Bank or in transit by mail or carrier to or from the Bank, or in the possession of any third party acting in the Bank's behalf, without regard to whether the Bank received the same in pledge for safekeeping, as agent for collection or transmission or otherwise, or whether the Bank has conditionally released the same, shall constitute additional security for the Borrower's indebtedness and may be applied at any time to any indebtedness to the Bank that is then due, whether by acceleration or otherwise.

SECTION 8
Miscellaneous Covenants

8.1. Notices.

(a) All communications that are required or permitted by this Agreement or the Note shall be in writing and shall be mailed by first class United States mail, postage prepaid, addressed as follows:

(1) if to the Bank, at the following address or such other address as may have been furnished in writing to the Borrower by the Bank:

First of America Bank -
Southeast Michigan, N.A.
645 Griswold Street
P.O. Box 2659
Detroit, Michigan 48226

Attention: Michael J. Harris

(2) if to the Borrower, at the following address or such other address as may have been furnished in writing to the Bank by the Borrower:

Mackinac Financial Corporation
511 Woodward Avenue
Detroit, Michigan 48226

Attention: Samuel B. Sherer, Sr., President

(b) Any notice so addressed and mailed by certified United States mail shall be deemed to be given when so mailed. Notices delivered by any other means shall be deemed to be given when received.

8.2. Reproduction of Documents. The Loan Documents and all documents relating hereto, including (without limitation) (a) consents, waivers and modifications which may hereafter be executed, (b) documents received by the Bank at the Closing or otherwise and (c) financial statements, certificates and other information previously or hereafter furnished to the Bank, may be reproduced by the Bank by any photographic or other similar process, and the Bank may destroy any original document so reproduced. The Borrower agrees and stipulates that any such reproduction shall be admissible in evidence as the original itself in any judicial or administrative proceeding (whether or not the original is in existence and whether or not such reproduction was made by the Bank in the regular course of business) and that any enlargement, facsimile or further reproduction of such reproduction shall likewise be admissible in evidence.

8.3. Survival. All representations, warranties and covenants made by the Borrower herein or in any certificate or other instrument delivered by it or on its behalf under this Agreement shall be considered to have been relied upon by the Bank in making its decision to enter into this Agreement, extend credit to the Borrower and Close the Loan, and they shall survive the Closing regardless of any investigation made by or on behalf of the Bank. All statements in any such certificate or other instrument shall constitute representations and warranties by the Borrower.

8.4. Successors and Assigns. This Agreement shall inure to the benefit of and be binding upon the successors and assigns of each party.

8.5. Amendment and Waiver. This Agreement may be amended, and the observance of any term of this Agreement may be waived, with (and only with) the written consent of the Borrower and the Bank.

8.6. Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be an original but all of which together shall constitute one and the same agreement.

8.7. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Michigan.

8.8. Waiver of Jury Trial. The Borrower waives trial by jury in any litigation in any court with respect to, in connection with or arising out of any Loan Document or the validity, protection, interpretation, collection or enforcement thereof, or any other claim or dispute however arising between the Borrower and the Bank.

IN WITNESS WHEREOF, the parties hereto have made this Agreement effective as of the day and year first above written.

FIRST OF AMERICA BANK - SOUTHEAST
MICHIGAN, N.A.,

By____________________________
Allen W. Hagadon, Senior Vice
President

MACKINAC FINANCIAL CORPORATION

By____________________________
Samuel B. Sherer, Sr., President

TERM NOTE

Principal Amount: $1,500,000.00
Date of Issuance: ____________, 1992

FOR VALUE RECEIVED, the undersigned, MACKINAC FINANCIAL CORPORATION ("the Borrower"), promises to pay to FIRST OF AMERICA BANK - SOUTHEAST MICHIGAN, N.A. ("the Bank"), or order, at the Bank's principal office at 645 Griswold Street, Detroit, Michigan 48226, or at such other place as the Bank may designate in writing, the principal amount stated above ("the Principal Amount"), together with interest from the Date of Issuance stated above, at the rate or rates and payable at the times and in the manner hereinafter provided.

This Note is executed and delivered to the Bank pursuant to a Term Loan Agreement dated as of April 30, 1992, between the Bank and the Borrower ("the Loan Agreement"), and payment of this Note is secured by a pledge to the Bank of all of the outstanding stock of Detroit Savings Bank, a federal savings bank ("DSB"), pursuant to a Stock Pledge Agreement dated as of April 30, 1992 ("the Pledge Agreement").

All the representations, warranties, agreements, terms and conditions contained in the Loan Agreement or the Pledge Agreement are incorporated herein. Reference is made to the Loan Agreement and the Pledge Agreement for a full statement of the rights of the owner and holder of this Note and the Borrower.

Interest

As used herein, "Base Rate" means the interest rate established as such by the Bank from time to time based on its consideration of economic, money market, business and competitive factors and is not necessarily the Bank's most-favored or lowest rate.

This Note shall bear interest on the unpaid Principal Amount at a fluctuating rate per annum equal to 0.50% above the Base Rate but not more than 10.00% per annum. For purposes of the Loan, such rate shall change automatically and without notice to the Borrower, effective as of the effective date of each announced change by the Bank in the Base Rate.

For the period during which a default shall exist in the payment of any amount due and payable hereunder, whether by acceleration or otherwise, such amount shall bear interest at the rate of three percentage points per annum in excess of the Base Rate.

All interest shall be calculated on the basis of a 360-day year, but for the actual number of days elapsed during each interest calculation period. The amount of any payment shall first be applied to the payment of any interest then due.

Manner of Payment

Interest on this Note shall be due and payable monthly in arrears on the first day of each month, commencing on June 1, 1992 (each a "Payment Date"), until May 1, 1997 ("the Maturity Date").

The principal of this Note shall be due and payable in monthly installments of $25,000 each on each Payment Date until the Maturity Date, when the entire principal balance and all interest then due shall be paid in full.

So long as the Borrower is not in default under this Agreement, the Borrower shall have the right, on any Payment Date, to prepay whole installments of the principal of the Note without penalty. All prepayments of principal shall be applied in inverse order of Payment Dates.

Late Charge

Any installment or other payment not made within 10 days of the date such installment or payment is due shall be subject to a late charge equal to 5.00% of the amount of such installment or payment.

Default

During the continuance of an Event of Default (as defined in the Loan Agreement), the Bank may, at its option, without notice or demand, accelerate the maturity of the obligations evidenced hereby, which obligations shall become immediately due and payable. In the event the Bank shall institute any action for the enforcement or collection of the obligations evidenced hereby, the Borrower agrees to pay all costs and expenses of such action, including reasonable attorneys' fees, to the extent permitted by law.

General Provisions

The Borrower and any endorser, surety or guarantor hereby severally waive presentment, notice of dishonor, protest, notice of protest and diligence in bringing suit against any party hereto, and consent that, without discharging any of them, the time of payment may be extended an unlimited number of times before or after maturity without notice. The Bank shall not be required to pursue any party hereto, including any guarantor, or to exercise any rights against any collateral therefor before exercising any other such rights.

The obligations evidenced hereby may from time to time be evidenced by another note or notes given in substitution therefor or in renewal or extension hereof. Any security interest or mortgage which secures the obligations evidenced hereby shall remain in full force and effect notwithstanding any such substitution, renewal or extension.

The captions used herein are for reference only and shall not be deemed a part of this Note. If any of the terms or provisions of this Note shall be deemed unenforceable, the enforceability of the remaining terms and provisions shall not be affected. This Note shall be governed by and construed in accordance with the law of the State of Michigan.

MACKINAC FINANCIAL CORPORATION

By____________________________________
Samuel B. Sherer, Sr., President

STOCK PLEDGE AGREEMENT

This is a Pledge Agreement ("Agreement") dated as of April 30, 1992, between MACKINAC FINANCIAL CORPORATION, a Michigan corporation ("the Borrower") and FIRST OF AMERICA BANK - SOUTHEAST MICHIGAN, N.A., a national banking association with its principal place of business at 645 Griswold Street, Detroit, Michigan 48226 ("the Bank").

A. The Bank has agreed to loan to the Borrower the principal sum of $1,500,000 pursuant to the Term Loan Agreement dated as of April 30, 1992, between the Borrower and the Bank ("Loan Agreement") and evidenced by the Note (as defined in the Loan Agreement).

B. The Loan Agreement requires the Borrower to pledge to the Bank all of the outstanding stock of its wholly owned subsidiary, Detroit Savings Bank, a federal savings bank ("DSB"), to secure repayment of the Loan

NOW, THEREFORE, in order to induce the Bank to make the Loan and to secure the repayment of the Note and all other liabilities and indebtedness, now or hereafter owing by the Borrower to the Bank, the parties agree as follows:

1. Pledge. The Borrower grants a first security interest to the Bank in the following collateral ("the Collateral"):

(a) 100 shares of Common Stock, par value $1.00 per share, of DSB, held in the name of the Borrower ("the Pledged Shares"), represented by certificate no. __ ("the Share Certificates", whether one or more).

(b) Any securities hereafter delivered to the Borrower in addition to or substitution for any of the Pledged Shares and all certificates and instruments representing or evidencing such securities.

(c) All of the Borrower's right, title and interest in the Pledged Shares, all dividends or distributions arising therefrom, payable therein or distributed in respect thereto, whether in cash, property, stock or otherwise and whether now or hereafter declared, paid or made, together with the right to receive and receipt therefor; provided, however, that if and so long as no default in the observance and performance of any of the terms of this Agreement, the Loan Agreement or the Note or in the payment of any other indebtedness now or hereafter owing by the Borrower to the Bank, the Borrower shall have the right to receive all dividends in respect to the Collateral paid in cash or in the stock of a corporation other than DSB or in other property. Notwithstanding the foregoing, the Borrower shall have no right to receive any dividend on the Collateral paid in stock of DSB, or paid out of the proceeds of the sale or condemnation of any property of DSB or upon or in the course of dissolution or liquidation (whether partial or otherwise) or winding up of the DSB, or which in any way shall be chargeable to or payable out of capital, capital surplus or paid-in surplus.

2. Perfection of Security Interest. In order to perfect the Bank's security interest in the Pledged Shares, the Borrower has delivered to the Bank the Share Certificates duly endorsed for transfer in blank (or accompanied by one or more signed stock powers in blank).

3. Representations, Warranties and Covenants. The Borrower hereby represents, warrants and agrees with the Bank as follows:

(a) The Borrower has the power to execute this Agreement and to carry out all of the terms, conditions, covenants and provisions contained herein.

(b) DSB is a federal savings bank organized, validly existing and in good standing; the Borrower is the sole and absolute owner of the Pledged Shares and has full power to make the pledge contemplated hereby; the Pledged Shares are duly issued, fully paid and nonassessable and free from all security interests, liens and encumbrances (other than the security interest granted by the Agreement); immediately before granting the security interest created by this Agreement, the Borrower was the record and beneficial owner and holder of the Pledged Shares on the stock books and records of DSB; the Pledged Shares are all of the issued and outstanding stock of DSB of any class or series; and the Pledged Shares are freely transferrable without restriction or limitation.

(c) During the term of this Agreement, and so long as there is no default in the observance and performance of any of the terms of this Agreement, the Loan Agreement or the Note, the Borrower shall have the right to vote the Pledged Shares on all corporate questions, and the Bank shall execute such due and timely proxies in favor of the Borrower as may be necessary to that end.

(d) If, whenever and as often as, during the term of this Agreement, any stock dividend, reclassification, readjustment or other change is declared or made in the capital structure of DSB, all new, substituted and additional shares or other securities issued in respect to the Pledged Shares shall be held by the Bank under the terms of this Agreement in the same manner as the Pledged Shares.

(e) If, whenever and as often as, during the term of this Agreement, subscription warrants or any other rights or options shall be issued in connection with the Pledged Shares or any other securities at the time held by the Bank hereunder, such warrants, rights and options shall be immediately assigned to the Bank by the Borrower, and if exercised by the Borrower, all new stock or other securities so acquired by the Borrower shall be immediately assigned to the Bank to be held by the Bank under the terms of this Agreement in the same manner as the Pledged Shares.

(f) The Borrower has good right and lawful authority to pledge, hypothecate, mortgage, assign, transfer, deliver, set over and confirm unto the Bank the Collateral as provided in this Agreement, and the Borrower shall warrant and defend the title thereto and the Bank's security interest therein against the claims of all Persons.

(g) So long as this Agreement shall be in effect, the Borrower shall not sell, assign or transfer, and shall not pledge, hypothecate, mortgage or otherwise encumber any right or rights with respect to the Collateral or any rights or interest therein.

4. Default. If, whenever and as often as, the Borrower shall default in the prompt payment of the Note or of any other indebtedness owing to the Bank, or there shall have occurred an Event of Default (as defined in the Loan Agreement), the Bank shall have at any time thereafter the rights and remedies provided in the Uniform Commercial Code in force in Michigan and shall have the right to take any available action or proceeding, at law or in equity, which it deems necessary or advisable for its protection and security.

5. Governing Law. This transaction shall be governed by the laws of Michigan, and the Bank shall have all of the rights and remedies granted to a secured party under the Michigan Uniform Commercial Code.

6. Authority of the Bank. The Borrower hereby irrevocably authorizes and empowers the Bank, in its absolute discretion, at any time after any default in the prompt payment of the Note or the occurrence of an Event of Default (as defined in the Loan Agreement), to transfer or cause to be transferred on the books of DSB to the Bank, or the nominee or nominees of the Bank, the Pledged Shares and the Share Certificates.

7. Termination. When and if the Note and any other indebtedness of the Borrower to the Bank have been paid in full, all rights and interests of the Bank in and to the Pledged Shares and the other Collateral shall thereupon revest in

the Borrower, and the Bank thereupon shall release the security interest granted in this Agreement, reassign the Pledged Shares and the other Collateral to the Borrower and deliver the Share Certificates (together with any related stock powers) to the Borrower.

8. Taxes. The Borrower shall pay for any and all documentary stamps or other taxes which may be imposed on the transfer and delivery to the Bank, or the retransfer and redelivery to the Borrower, of the Pledged Shares, the other Collateral to the Borrower and the Share Certificates.

9. Waiver by the Borrower. The Borrower hereby waives presentment, demand, protest or notice of protest with respect to the Note.

10. Bank's Rights; Exculpation. The Collateral shall be held in the possession of the Bank, and in connection therewith, the Bank shall have the authority and power to take such actions and to exercise such powers hereunder as are specifically delegated to the Bank by the terms hereof, together with such other powers as are reasonably incidental thereto. The Bank shall not be liable hereunder in its capacity as agent or bailee for any action taken or omitted by it hereunder except for its gross negligence or willful breach. The Bank shall have no compensation hereunder and shall be under no duty with respect to the Collateral except to account therefor in due course, pursuant to the terms and conditions hereof.

11. Entire Agreement. This Agreement, the Loan Agreement and the Note contain the complete agreement of the parties hereto.

12. Modification of Agreement This agreement may not be modified except in writing and executed with the same formality as this Agreement.

13. Binding Effect. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns.

14. Notices. All notices required or permitted to be given hereunder shall be in writing and addressed:

If to the Bank, as follows:

First of America Bank - Southeast Michigan, N.A.
645 Griswold Street
P.O. Box 2659
Detroit, Michigan 48226

Attention: Michael J. Harris

If to the Borrower, as follows:

Mackinac Financial Corporation
511 Woodward Avenue
Detroit, Michigan 48226

Attention: Samuel B. Sherer, Sr., President

15. Further Assurance. Each party shall execute and deliver to the other such further documents and instruments, and shall perform such other acts, as reasonably may be necessary or proper to carry out more effectually the purposes of this Agreement.

FIRST OF AMERICA BANK -
SOUTHEAST MICHIGAN, N.A.,

By______________________________
Allen W. Hagadon, Senior Vice President

MACKINAC FINANCIAL CORPORATION

By______________________________
Samuel B. Sherer, Sr., President

EXHIBIT B - Page 5

OPINION OF JAFFE, RAITT, HEUER & WEISS, PROFESSIONAL CORPORATION

EXHIBIT C to the Term Loan Agreement, the form of the opinion of Jaffe, Raitt, Heuer & Weiss, Professional Corporation, counsel to the Borrower and DSB, consists of the six typewritten pages that follow this page.

Elliot A. Spoon

April 30, 1992

First of America Bank -
  Southeast Michigan, N.A.
645 Griswold Street
Post Office Box 2659
Detroit, Michigan 48226

We have advised Mackinac Financial Corporation, a Michigan corporation (the "Borrower"), and its wholly owned subsidiary, Detroit Savings Bank, a federally chartered savings bank ("DSB"), in connection with a Term Loan Agreement dated as of April __, 1992 ("the Loan Agreement"), between the Borrower and First of America Bank - Southeast Michigan, N.A. (the "Bank"). Each capitalized term used (but not defined) herein is so used within the meaning given to such term in the Loan Agreement.

This opinion is being delivered to the Bank pursuant to Section 5.2 of the Loan Agreement, in satisfaction of one of several conditions to the obligation of the Bank to make the Loan.

The law covered by the opinions expressed herein is limited to the Federal Law of the United States and law of the State of Michigan.

We have examined only the following documents: (1) signed copies of the Loan Documents, (2) the Articles of Incorporation and by-laws of the Borrower, (3) copies certified to our satisfaction of a resolution of the Board of Directors of the Borrower authorizing the execution, delivery and performance of the Loan Documents, (4) Certificate of the Department of Commerce of the State of Michigan regarding the good standing of the Borrower and (5) Certificate of an officer of the Borrower.

In making such examination, we have assumed, with your permission, (a) the authenticity of executed original documents, (b) the conformity to authentic originals of documents submitted to us as certified, conformed or photocopies, (c) the genuineness of the signatures on all documents and (d) the authority of any person who signed a document on behalf of any entity other than the Borrower or DSB.

We have also relied upon factual representations made by the Borrower in the Loan Agreement. To the extent that any opinion given herein is expressed in terms of our knowledge or awareness, we have relied exclusively on the documents examined as described above and the representations of the Borrower in the Loan Agreement. Although we are not aware of anything that contradicts such facts or information, we have not undertaken to independently verify any such facts or information.

Based upon and subject to the foregoing, it is our opinion that:

1. The Borrower is a corporation validly existing and in good standing under the laws of the State of Michigan, and DSB is a federally chartered savings bank validly existing and in good standing under the laws of the United States.

2. To our knowledge, the Borrower and DSB have all requisite power and authority to own and operate their properties and to carry on their businesses as and where now conducted.

3. The Board of Directors of the Borrower has duly authorized the execution, delivery and performance of the Loan Documents, and each Loan Document and the Note constitutes a valid and binding obligation of the Borrower enforceable in accordance with its terms, subject to the effect of (i) bankruptcy, insolvency, reorganization, receivership, moratorium and other similar laws affecting the rights and remedies of creditors generally, (ii) general principles of equity, whether applied by a court of law or equity and (iii) rights of federal agencies under the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, as amended, and any similar or successor law or regulation.

4. The execution, delivery and performance of the Loan Documents and the compliance by the Borrower with all of the provisions thereof (i) are within the corporate powers of the Borrower, (ii) will not result in any breach of any of the provisions of, constitute a default under or result in the creation of any lien or encumbrance upon any property of the Borrower under, the provisions of any charter document or bylaw and (iii) are legal and will not violate or conflict with any law, rule or regulation currently in effect, except that performance is subject to the continuing requirements of the Capital Plan and the rules and regulations of the Office of Thrift Supervision.

5. To our knowledge, neither the nature of the Borrower or of its business or properties, nor any relationship between the Borrower and any other Person, nor any circumstance in connection with the execution, delivery or performance of the Loan Documents, is such as to require a consent, approval or authorization of, or filing, registration or qualification with, any governmental authority on the part of the Borrower as a condition to the execution, delivery and performance of the Loan Documents, except for the Office of Thrift Supervision.

6. The capital stock that the Borrower is authorized to issue consists entirely of six hundred thousand (600,000) shares of Common Stock (of which, to our knowledge, only eighty-nine thousand seven hundred thirty-one (89,731) shares are issued and outstanding) and four hundred thousand (400,000) shares of serial preferred stock (none of which are issued and outstanding). The capital stock that DSB is authorized to issue consists entirely of six million (6,000,000) shares of Common Stock, par value One ($1.00) Dollar per share (of which, to our knowledge, only one hundred (100) shares are issued and outstanding), and four million (4,000,000) shares of serial preferred stock (none of which are issued and outstanding).

7. To our knowledge, DSB is the only subsidiary of the Borrower and all of the outstanding stock of DSB is owned, beneficially and of record, by the Borrower. The Borrower has full power to pledge such stock to the Bank as contemplated by this Agreement and the Pledge Agreement.

This opinion may be relied upon by you only in connection with the Loan Agreement and may not be used or relied unon by you or any other person for any purpose whatsoever, without in each instance our prior written consent.

Very truly yours,

JAFFE, RAITT, HEUER & WEISS
Professional Corporation

Elliot A. Spoon

/jmp
DAA0A488

OFFICER'S CERTIFICATE

The undersigned, SAMUEL B. SHERER, SR., certifies to First of America Bank - Southeast Michigan, N.A. ("the Bank"), that:

1. He is the duly elected and serving President of Mackinac Financial Corporation ("the Borrower"). As President of the Borrower, he is familiar with the business, properties and affairs of the Borrower and its wholly owned subsidiary, Detroit Savings Bank, a federal savings bank ("DSB").

2. He has read and understands the Term Loan Agreement dated as of April 30, 1992, between the Bank and the Borrower ("the Loan Agreement") and the Pledge Agreement (as defined in the Loan Agreement).

3. All obligations to be performed and conditions to be satisfied by the Borrower under the Loan Agreement at or before the Closing have been performed or satisfied.

4. The written evidence referred to in Section 5.8 of the Loan Agreement remains in effect without modification of any kind.

5. The representations and warranties made by the Borrower in the Loan Agreement and the Pledge Agreement are true on the date of this Officer's Certificate as though they had been restated herein in their entirety on such date.

DATED: ____________________, 1992

____
Samuel B. Sherer, Sr., President

EXHIBIT D

MACKINAC FINANCIAL CORPORATION AND
DETROIT SAVINGS BANK
EXECUTIVE OFFICERS INCENTIVE PLAN

Section 1. Purpose and Administration

1.1 Purpose. The purpose of the Executive Officers Incentive Plan (the "Plan") is to promote the interests of Mackinac Financial Corporation (the "Holding Company") and Detroit Savings Bank (the "Corporation") and the employees and shareholders thereof by providing the key executive officers of the Corporation and the Holding Company with a means of acquiring or increasing a proprietary interest in the Holding Company so that they will have an increased incentive to work for the long-term success of the Corporation and the Holding Company.

1.2 Administration. The Plan shall be administered by a committee (the "Committee") of the Board of Directors of the Holding Company. The Committee shall consist of the members of the Board who are disinterested within the meaning of Rule 16b-3 under the Securities Exchange Act of 1934 and shall consist at all times of at least two members. The Committee is authorized to interpret the Plan, to prescribe, amend, and rescind rules and regulations relating to the Plan, to provide for conditions and assurances deemed necessary or advisable to protect the interests of the Corporation, and to make all other determinations necessary or advisable for the administration of the Plan, but only to the extent not contrary to the express provisions of the Plan. Determinations, interpretations, or other actions made or taken by the Committee pursuant to the provisions of the Plan shall be final and binding and conclusive for all purposes and upon all persons whomsoever.

Section 2. Definitions

2.1 Definitions. When used herein, the following terms shall have the meanings set forth below, unless expressly provided otherwise:

(a) "Board" means the Board of Directors of the Holding Company.

(b) "Committee" means the Committee appointed in accordance with Section 1.2 of the Plan.

(c) "Corporation" means Detroit Savings Bank.

(d) "Key Employee" means the key executive officers of the Corporation and/or the Holding Company.

(e) "Fair Market Value" means, as of any date, the appraised value based upon the most recent independent appraisal conducted by Financial Strategy Group, Inc. of Washington, D.C. or any other independent appraiser selected by the Holding Company. Such appraisal will be based upon the financial condition and profitability of the Holding Company as reflected in audited year end financial statements and, if applicable, more recent quarterly unaudited financial statements, the Holding Company's business prospects and market values of the thrift industry generally. Such appraisals, while independent, represent the opinion solely of a single financial consultant, will not be joined in by any other independent appraiser and may not reflect the actual price at which Grantees will be able to sell shares of Common Stock.

(f) "Grantee" means a Key Employee who has received a grant of, and is holding, Restricted Stock under the Plan.

(g) "Holding Company" means Mackinac Financial Corporation.

(h) "Period of Restriction" means the period during which the transfer of shares of Restricted Stock is prohibited and the shares remain subject to forfeiture.

(i) "Restricted Stock" means Stock which has been issued under the Plan and has not been released from the restrictions of the Plan or forfeited.

(j) "Special Event" means the first to occur of either the single sale of at least 50% of the common stock or assets of the Holding Company or the Corporation or the merger of the Holding company or the Corporation with a corporation that is not affiliated with either the Holding Company or the Corporation as of the Effective Date of the Plan; provided, however, that a "Special Event" shall not be deemed to have occurred in the event of either : (i) a merger of the Holding Company with another entity if, immediately after the merger, the individuals and entities who were shareholders of the Holding Company immediately prior to the merger have the power to elect a majority of the members of the Board of Directors of the surviving corporation in such merger, or (ii) a merger of the

Corporation with another entity if, immediately after the merger, at least 50% of the outstanding stock of the surviving corporation in such merger is owned by the Holding Company.

(k) "Stock" means the common stock of Mackinac Financial Corporation, which owns all of the outstanding shares of the Corporation.

Section 3. Grants of Restricted Stock

3.1 Eligibility. Eligibility for participation in the Plan shall be limited to those Key Employees designated by the Committee.

3.2 Awarding of Grants. The Committee, at one or more times prior to January 1, 1995, may grant shares of Restricted Stock to such Key Employees as have been determined to be eligible under Section 3.1 above. The grants shall be in such amounts as the Committee may determine, subject to the limits of Section 3.3 below, and the shares granted shall be subject to the terms and conditions of the Plan, including, but not limited to, the provisions hereof relating to restrictions on transfer and forfeiture of the shares.

3.3 Limitation on Grants. The total number of shares of Restricted Stock that may be granted under the Plan shall be determined as follows:

(a) At such time after January 1, 1992 as the Corporation shall meet the fully phased in regulatory capital requirements reflected in governmental rules and regulations in effect on the date of grant, as determined in the sole discretion of the Committee, shares having a Fair Market Value of $210,000 may be granted.

(b) Prior to December 31, 1994 and at such time as the tangible capital of the Corporation shall have increased by $2 million above the level triggering the grant under (a) above, exclusive of any capital infusions from the Holding Company, additional shares with a Fair Market Value of $100,000 may be granted.

(c) Prior to December 31, 1994 and at such time as the tangible capital of the Corporation shall have increased by an additional $2 million above the level triggering the grant under (b) above, exclusive of any capital infusions from the Holding

Company, additional shares with a Fair Market Value of $100,000 may be granted.

If any shares of Restricted Stock are reacquired by the Corporation through forfeitures, such shares shall be treated as never having been previously granted under the Plan and shall be available for new grants under the Plan. Notwithstanding the foregoing, (i) no Shares may be granted under the Plan if such award would violate or conflict with any applicable law or governmental rule or regulation, (ii) all grants made prior to the approval of the Plan by the shareholders of the Holding Company shall be contingent upon such approval and (iii) no grants shall be made subsequent to December 31, 1994.

Section 4. Restrictions

4.1 Restrictions. All stock granted under the Plan shall initially be Restricted Stock and during a Period of Restriction shall be subject to the restrictions of the Plan. Such Period of Restriction shall commence with the date of the grant of the Restricted Stock and end with the lifting of the restriction of the Plan or the forfeiture of such Stock, as provided in Section 5.

4.2 Nontransferability. Until the termination of the applicable Period of Restriction, no rights to shares of Restricted Stock may be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, otherwise than by beneficiary designation conforming to Section 6.1, below, or by will or the laws of descent and distribution. A Grantee's rights under the Plan shall be exercisable during his lifetime only by the Grantee or his guardian. Upon the death of a Grantee, his beneficiary or legal representative may exercise his rights under the Plan.

4.3 Deposit of Certificates. Certificates for Restricted Stock, after having been issued in the name of the Grantee, shall be deposited with the Corporation to be held during the Period of Restriction. On termination of the Period of Restriction or on forfeiture, the Committee shall be authorized to execute in the name of the Grantee (or, in the event of death, his estate) such assignments of shares as may be required to effect the transfer or cancellation of the shares and the delivery of certificates to the Corporation or such other person as shall be entitled to the same under the terms of the Plan.

4.4 Certificates to Bear Legend. Certificates for Restricted Shares shall bear on the face thereof a legend giving notice that the shares represented by the certificate are subject to the restrictions and other provisions of the Plan. Upon the release of the shares from the restrictions, and subject to the remittance of any applicable withholding tax, the Grantee or other person entitled to the unrestricted shares shall be entitled to have a new certificate without any legend other than such legend as may be required by applicable securities laws.

4.5 Voting and Dividend Rights. Except as otherwise provided in Section 5.4, nothing in the restrictions shall affect the right of the Grantee of Restricted Stock to exercise full voting rights with respect to Restricted Stock and to be paid all cash dividends in respect to Restricted Stock. Stock dividends or other distributions in securities shall be held by the Corporation and treated in all respects as part of the shares of Restricted Stock with respect to which the distribution relates.

Section 5. Period of Restriction, Lifting of Restrictions, Forfeiture.

5.1 Lifting of Restrictions; Forfeiture if Restrictions Not Lifted Prior to January 1, 2002. As of December 31 of each year from 1992 through 2001, the Committee shall calculate the number of shares as to which the restrictions of the Plan are to be lifted, based on the following formula:

$$RSL = RS \times \frac{DP}{\$4.00} \times 10\%$$

where (i) RSL is the number of shares of Restricted Stock as to which the restrictions are to be lifted, (ii) RS is the number of shares of Restricted Stock which were granted to the Grantee on an initial grant date, and (iii) DP is equal to the per share cash dividends paid on the Stock during the year ending on such date. The calculation shall be made separately with respect to the Restricted Stock granted to a Grantee on each initial grant date, so that if 100 shares of Restricted Stock are granted to an employee in 1992 and an additional 50 shares are granted in 1993, in calculating the shares to be released in 1993, one calculation shall be made with RS equaling 100 and a second calculation be made with RS equaling 50. Any shares as to which the restrictions of the Plan have not been lifted prior to January 1, 2002 shall be forfeited.

5.2 Effect of Termination of Employment. Where a Grantee's employment is terminated, either voluntarily or involuntarily, for any reason other than death, total and permanent disability or retirement (both as defined in the Corporation's Tax Deferred Savings Plan), all shares of Restricted Stock as to which the restrictions of the Plan have not been lifted under Section 5.1 shall be forfeited. Where a

Grantee's employment is terminated by reason of death, total and permanent disability or retirement, all shares of Restricted Stock as to which the restrictions of the Plan have not been lifted under Section 5.1 shall be forfeited except that (i) a calculation under Section 5.1 shall be made as of the date of termination of employment based upon the dividends paid to date in the year of such termination and (ii) the restrictions of the Plan shall be lifted as to an additional number of shares, if any, as may be determined in accordance with the following formula:

$$\text{ARSL} = \frac{(\text{MVTD} - \text{MVGD}) \times \text{FS}}{\text{MVTD}}$$

where (A) ARSL equals the number of additional Shares as to which restrictions of the Plan are to be lifted, (B) MVTD equals the Market Value of a share of Stock on the date of termination of employment, (C) MVGD equals the Market Value of a share of Stock on the date that the Restricted Stock was granted and (D) FS is the number of shares which would be forfeited but for the application of the formula. The calculation under this Section 5.2 shall be made separately with respect to each grant and the calculation of additional Shares under (ii) of this Section 5.2 shall be made after the interim calculation under (i) of this Section 5.2. In the event of termination of employment for any reason, the Committee, in its sole discretion but subject to the approval of the Board, may lift the restrictions on an additional number of Shares.

5.3 Effect of the Occurrence of a Special Event. In the event that a Special Event occurs, the restrictions on transfer shall be lifted as to all shares as to which the restrictions on transfer have not theretofore been lifted under Section 5.1 or 5.2 hereof except those shares which were forfeited prior to the date of the Special Event.

5.4 Limitations Relating to Governmental Compliance and Shareholder Approval. Notwithstanding Sections 5.1, 5.2, 5.3 or any other provision hereof, (i) the restrictions of the Plan shall not be lifted with respect to any shares of Restricted Stock if to do so would violate or conflict with any applicable law or governmental rule or regulation, (ii) the restrictions of the Plan shall remain in effect for a period of at least six months after the date upon which such shares are granted to the Grantee or such longer period as may be required to comply with Rule 16b-3 under the Securities Exchange Act of 1934, (iii) with respect to any Grantee whose beneficial ownership of shares of the Holding Company cannot be increased without governmental approval, (A) such Grantee shall not be entitled to exercise voting rights with respect to shares of Restricted Stock or to designate a beneficiary under Section 6.1 with respect to such shares until such governmental approval is granted, (B) the restrictions of the Plan shall not be lifted with respect to shares of Restricted stock granted to such Grantee nor may a beneficiary be designated pursuant to Section 6.1 with respect to such shares until the approval is granted, and (C) dividends on the shares of Restricted Stock granted to such Grantee shall be held by the Holding Company until such approval is granted, at which time the dividends shall be paid (without interest) to the Grantee, and (iv) the restrictions of the Plan shall not be lifted prior to the date upon which the Plan is approved by the shareholders of the Holding Company.

Section 6. Beneficiary Designation

6.1 Designation of Beneficiaries. A Grantee may designate a beneficiary or beneficiaries to receive any shares of Restricted Stock as to which the restrictions are lifted upon the death of the Grantee, and Grantee may from time to time change any such beneficiary designation. All beneficiary designations and changes therein shall be in writing and shall be effective only if and when delivered to the Committee during the lifetime of the Grantee.

Section 7. Reimbursement for Certain Taxes

7.1 Payments for Electing Grantees. In the event that a Grantee makes a proper election under the Internal Revenue Code to treat the value of the Restricted Stock covered by a grant as taxable income in the year of such grant and the effect of such election is that the Holding Company or the Corporation is entitled to a corresponding deduction, the Committee may cause the Corporation or the Holding Company to pay to such Grantee, or to apply to withholding taxes that would otherwise be paid by the Grantee in accordance with Section 8.4 hereof, an amount equal to 50% of the value on the date of grant of the Restricted Stock covered by such grant. No such payment shall be made if the Grantee does not make a proper election within thirty (30) days after the date upon which he receives a Restricted Stock grant.

Section 8. Miscellaneous

8.1 Not an Employment Contract. Nothing in this Plan or in any grant shall interfere with or limit in any way the right of the Corporation or the Holding Company to terminate any Grantee's employment at any time, nor confer upon any Grantee any right to continue in the employ of the Corporation or the Holding Company.

8.2 Duration of the Plan. No Stock may be granted under the Plan after December 31, 1994, or such earlier date as the Board may fix. The Plan shall terminate as soon thereafter as there is no longer any Restricted Stock outstanding, but in no event later than January 1, 2002.

8.3 Amendment. The Board may at any time, from time to time and in any respect amend or modify the Plan; provided, however, that shareholder approval shall be required for any amendment that would (i) materially increase the benefits accruing to participants under the Plan; (ii) materially increase the number of securities that may be issued under the Plan; or (iii) materially modify the requirements as to eligibility for participation in the Plan; and provided further that no amendment shall adversely affect any rights of a Grantee with respect to any Restricted stock theretofore granted under the Plan.

8.4 Tax Withholding. All rights under the Plan are subject to such withholding for federal, state or local taxes as may be required by law and the Grantee or other person claiming under the Grantee shall be required to pay to the Corporation or the Holding Company the amount of any such required withholding except to the extent, if any, that payments under Section 7.1 are applied to such withholding.

8.5 Governing Law. The Plan shall be construed in accordance with Michigan law.

8.6 Expenses. Expenses of administering the Plan shall be born by the Corporation.

8.7 Effective Date. The Plan shall become effective as of January 1, 1992 but the effectiveness is contingent upon the approval of the Plan by the shareholders of the Holding Company.

8.8 Indemnification. Each person who is or shall have been a member of the Committee or of the Board shall be indemnified and held harmless by the Corporation from any loss, cost, liability, or expense that may be imposed upon or reasonably incurred by him in connection with any claim, action, suit, or proceeding to which he may be a party by reason of any action taken or failure to act under the Plan. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such persons may be entitled under the Articles of Incorporation or By-Laws of the Corporation or the Holding Company, or as a matter of law, or otherwise, or any power that the Corporation or the Holding Company may have to indemnify them or hold them harmless.

55

8.2 Duration of the Plan. No Stock may be granted under the Plan after December 31, 1994, or such earlier date as the Board may fix. The Plan shall terminate as soon thereafter as there is no longer any Restricted Stock outstanding, but in no event later than January 1, 2002.

8.3 Amendment. The Board may at any time, from time to time and in any respect amend or modify the Plan; provided, however, that shareholder approval shall be required for any amendment that would (i) materially increase the benefits accruing to participants under the Plan; (ii) materially increase the number of securities that may be issued under the Plan; or (iii) materially modify the requirements as to eligibility for participation in the Plan; and provided further that no amendment shall adversely affect any rights of a Grantee with respect to any Restricted stock theretofore granted under the Plan.

8.4 Tax Withholding. All rights under the Plan are subject to such withholding for federal, state or local taxes as may be required by law and the Grantee or other person claiming under the Grantee shall be required to pay to the Corporation or the Holding Company the amount of any such required withholding except to the extent, if any, that payments under Section 7.1 are applied to such withholding.

8.5 Governing Law. The Plan shall be construed in accordance with Michigan law.

8.6 Expenses. Expenses of administering the Plan shall be born by the Corporation.

8.7 Effective Date. The Plan shall become effective as of January 1, 1992 but the effectiveness is contingent upon the approval of the Plan by the shareholders of the Holding Company.

8.8 Indemnification. Each person who is or shall have been a member of the Committee or of the Board shall be indemnified and held harmless by the Corporation from any loss, cost, liability, or expense that may be imposed upon or reasonably incurred by him in connection with any claim, action, suit, or proceeding to which he may be a party by reason of any action taken or failure to act under the Plan. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such persons may be entitled under the Articles of Incorporation or By-Laws of the Corporation or the Holding Company, or as a matter of law, or otherwise, or any power that the Corporation or the Holding Company may have to indemnify them or hold them harmless.

55

0 28766

16

92 15 0058

Q 36073

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-Q

RECD S.E.C.
MAY 1 5 1992
137

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the quarterly period ended March 31, 1992

MG2-2267

or

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the transition period from ____________ to ____________

Commission File Number: 0-18309

PROCESSED BY
16-16=7
MAY 15 1992

MARINE DRILLING COMPANIES, I
(Exact name of registrant as specified in its

Microfilmed by
Q-Data Corp. - St. Petersburg, FL

Texas
(State or other jurisdiction of incorporation or organization)

74-2558926
(I.R.S. Employer Identification Number)

L39

14141 Southwest Freeway - Suite 2500 Sugar Land, Texas 77478
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (713) 491-2002

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X. No ___.

The number of shares of Common Stock, $.10 par value, outstanding at May 13, 1992 was 18,838,643.

MARINE DRILLING COMPANIES, INC.

FORM 10-Q

FOR QUARTER ENDED MARCH 31, 1992

PART I. FINANCIAL INFORMATION

		Page
Item 1.	Index to Financial Statements:	
	Consolidated Balance Sheets -- March 31, 1992 and December 31, 1991	1
	Consolidated Statements of Operations -- Three Months Ended March 31, 1992 and 1991	2
	Consolidated Statements of Cash Flows -- Three Months Ended March 31, 1992 and 1991	3
	Notes to Consolidated Financial Statements	4
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	6

PART II. OTHER INFORMATION

Item 1.	Legal Proceedings	12
Item 2.	Changes in Securities	12
Item 3.	Defaults upon Senior Securities	12
Item 4.	Submission of Matters to a Vote of Security Holders	13
Item 5.	Other Information	13
Item 6.	Exhibits and Reports on Form 8-K	13

SIGNATURES

MARINE DRILLING COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Unaudited)

	March 31, 1992	December 31, 1991
	(Dollars in thousands, except per share amounts)	
ASSETS		
CURRENT ASSETS:		
Cash	$ 5,297	$ 4,503
Restricted cash investments	827	7,237
Accounts receivable - trade and other	4,567	9,876
Prepaid expenses and other	619	1,506
Total current assets	11,310	23,122
PROPERTY AND EQUIPMENT, at cost	382,880	383,330
Less accumulated depreciation	176,581	173,038
Net property and equipment	206,299	210,292
NON-CURRENT PORTION OF ACCOUNTS RECEIVABLE	738	968
GOODWILL, net	10,972	11,150
OTHER	2,008	2,256
	$231,327	$247,788
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Long-term debt currently due	$ 80,922	$ 88,593
Accounts payable - trade and other	1,567	1,941
Accrued liabilities	14,823	13,578
Total current liabilities	97,312	104,112
LONG-TERM DEBT, non-current	59,702	59,702
14% CUMULATIVE EXCHANGEABLE PREFERRED STOCK: Redemption price of $100 per share plus dividends	59,386	57,233
STOCKHOLDERS' EQUITY:		
Common stock, par value $.10. Authorized 50,000,000 shares; issued and outstanding 18,838,643 shares	1,884	1,884
Additional paid-in capital	82,819	84,974
Common stock options outstanding	2,228	2,611
Accumulated deficit	(72,004)	(62,728)
Total stockholders' equity	14,927	26,741
	$231,327	$247,788

The accompanying notes are an integral part of these consolidated financial statements.

MARINE DRILLING COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended March 31, 1992	Three Months Ended March 31, 1991
	(Dollars in thousands, except per share amounts)	
REVENUES:		
Contract drilling	$ 6,314	$ 17,314
COSTS AND EXPENSES:		
Contract drilling	7,387	15,192
Depreciation and amortization	4,348	4,224
General and administrative	668	1,872
	12,403	21,288
Operating loss	(6,089)	(3,974)
OTHER INCOME (EXPENSE):		
Interest expense	(3,218)	(3,708)
Interest income	54	462
Other, net	(23)	(455)
	(3,187)	(3,701)
Net loss	(9,276)	(7,675)
Preferred stock discount accretion and dividend requirements	(2,155)	(1,886)
Net loss applicable to common stockholders	$ (11,431)	$ (9,561)
Loss per common share	$ (.61)	$ (.51)
Weighted average common shares outstanding	18,838,643	18,811,643

The accompanying notes are an integral part of these consolidated financial statements.

MARINE DRILLING COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Three Months Ended March 31, 1992	Three Months Ended March 31, 1991
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (9,276)	$ (7,675)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	4,348	4,224
(Gain) loss on disposition of equipment	41	(188)
Accrual of compensation expense (income)	(382)	192
Decrease in receivables	5,309	3,443
(Increase) decrease in prepaid expenses and other	887	(109)
Increase (decrease) in payables and accrued expenses	871	(2,312)
Other	249	292
Total adjustments	11,323	5,542
Net cash provided by (used in) operating activities	2,047	(2,133)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of equipment	-	(2,924)
Proceeds from disposition of equipment	8	231
Net cash provided by (used in) investing activities	8	(2,693)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments of debt	(7,671)	(1,131)
Decrease in restricted cash investments	6,410	648
Increase in investment in partnership	-	(556)
Net cash used in financing activities	(1,261)	(1,039)
Net increase (decrease) in cash and cash equivalents	794	(5,865)
Cash and cash equivalents at beginning of period	4,503	21,185
Cash at end of period	$ 5,297	$ 15,320
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest paid	$ 592	$ 2,871
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Accrual of cumulative dividends and accretion of discount on redeemable preferred stock	$ 2,155	$ 1,886

The accompanying notes are an integral part of these consolidated financial statements.

MARINE DRILLING COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 1992
(Unaudited)

1. There are 2,000,000 authorized shares, $1 par value, of 14% cumulative exchangeable redeemable preferred stock (preferred stock) of which 437,021 shares are issued and outstanding. The preferred stock dividend is payable quarterly, at the rate of $14 per share per annum, if declared by the Board of Directors. In lieu of a cash dividend, the dividend may be paid under certain circumstances by the issuance of additional shares of preferred stock at a value of $100 per share. The Company has issued 87,021 shares in prior years for this purpose. If the quarterly dividend is not paid either in cash or by preferred stock, additional dividends shall accrue on the amount of dividends unpaid, compounding quarterly, at the rate of 14% per annum. No cash dividends have ever been paid with respect to preferred stock.

   Dividends on common stock are restricted while shares of preferred stock are outstanding. The difference between the fair value of the preferred stock at the date of issue and the mandatory redemption value is being recorded through periodic accretions with the related charge to additional paid-in capital. Dividends, not declared or paid, are being accrued by increasing the carrying amount with the related charge to additional paid-in capital. Additions to the carrying amounts for the three months ended March 31, 1992 and 1991 are $2,155,000 and $1,886,000.

   The accretion of discount and accrual of dividends related to the preferred stock are included in the calculation of loss per common share applicable to common stockholders.

2. The Financial Accounting Standards Board (FASB) has issued Statement 109, "Accounting for Income Taxes," which will supersede Statement 96, "Accounting for Income Taxes." The Company currently accounts for income taxes under APB 11, having elected not to adopt Statement 96 prior to its required effective date. Statement 109 will change the Company's method of accounting for income taxes from the deferred method to the asset and liability method. Statement 109 is effective for fiscal years beginning after December 15, 1992. The effect of initially applying this new pronouncement is to be reported as the cumulative effect of a change in accounting principle in the year of change or by retroactively restating the financial statements for any number of consecutive years before the effective date in the results of operations. The Company presently does not know and cannot reasonably estimate the impact of Statement 109 on its consolidated financial statements. The Company intends to adopt Statement 109 in 1993 on a prospective basis.

3. Certain reclassifications have been made to the 1991 consolidated financial statements to conform with the 1992 presentation.

4. The consolidated interim financial statements of the Company presented herein have been prepared without audit pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, certain information and notes required by generally accepted accounting principles for complete financial statements have been condensed or omitted. In the opinion of management, these statements include all adjustments (all of which consist of normal recurring adjustments) necessary to summarize fairly the Company's financial position and results of operations for the interim periods presented. It is recommended that these statements be read in conjunction with the audited financial statements and notes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 1991. The results of operations for the three months ended March 31, 1992 are not necessarily indicative of the results that may be expected for the entire year.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The Company

Marine Drilling Companies, Inc. (MDCI, and collectively with its subsidiaries, the Company), formerly Marine Holding Company, is engaged in the contract drilling of oil and gas wells in the Gulf of Mexico for independent and major oil and gas companies. The Company's fleet consists of 19 jack-up rigs, 18 of which are owned by the Company and one of which is operated by the Company under a management and operating agreement. In addition, the Company owns a 50% interest in another rig which is currently held for sale. Previously, the Company operated 22 rigs in the three month period ended March 31, 1991. The reduction in the Company's fleet is attributable to the termination in January and October 1991, respectively, of the charter agreements under which the Company operated the MARINE 150 and MARINE 250 and the sale by the Company in August 1991 of the MARINE 5. The Company is among the largest providers of jack-up drilling services in the Gulf of Mexico and has been engaged in the contract drilling of offshore oil and gas wells since 1966.

The Company has suffered recurring losses from operations, and as of March 31, 1992, has an accumulated deficit of approximately $72,000,000 and a working capital deficit of approximately $86,000,000. In addition, the Company's subsidiaries have defaulted on certain loan agreements. The Company's plans in regard to these matters are included herein.

Strategic Objectives

The Company's strategic objectives are set forth below along with certain actions it intends to attempt in the future:

1. To provide value to its owners and lenders through a comprehensive repositioning of its fleet and capital structure--
    - The Company is attempting to restructure all of its subsidiaries' debt.
    - The Company is attempting to restructure its 14% Preferred Stock ($59.4 million).
    - The Company will attempt to obtain a working capital infusion through a sale of securities to its existing stockholders or others.
    - The Company may elect to downsize its fleet, keeping only the more marketable assets and disposing of the remainder. Alternatively, if non-drilling uses can be found for the less marketable rigs, the Company will attempt to so deploy those rigs.
    - In order to enhance the Company's ability to survive until business conditions improve, it has taken the following steps --
        a. General and administrative cash costs are expected to be reduced by over 50% from 1991 levels,
        b. Marketed rigs maintain significantly reduced crews during idle periods,
        c. Operations support costs are expected to be reduced by over 50% from 1991 levels,
        d. Non-marketed rigs are cluster-stacked at the lowest possible expense consistent with a reasonable maintenance program, and

e. Capital expenditures have been reduced to only those which are necessary for the Company's revised levels of operations and for upgrades to rigs expected to be relocated to international markets.

2. To maintain an emphasis on customer relationships and quality of service --

   - The Company's Gulf of Mexico operations for the short term will involve only a limited number of rigs which can be employed with its core customers at reasonable dayrate and utilization levels. All other rigs will be cold stacked and removed from the marketed fleet until market conditions improve.

3. To diversify into international markets --

   - The Company is aggressively marketing selected portions of its fleet internationally, either on a dayrate basis as the contractor or on a bareboat charter basis.

4. To enhance stockholder value through business combinations --

   - During the third and fourth quarters of 1991, the Company had several discussions with other parties interested in combining with or acquiring all or part of the Company. The Company had difficulty in developing any meaningful transactions due to its capital structure and liquidity situation, as well as the further deterioration in drilling market conditions occurring in late 1991.
   - The Company intends to continue to seek and participate in business combinations which it feels will add value to its owners. The Company believes that it will have greater opportunities to seek business combinations after it has successfully addressed its capital structure and liquidity concerns.

5. To protect the safety of its employees, assets and the environment --

   - The Company's safety program, extensively modified in 1990, has resulted in significant improvements,
   - The Company has added additional goals and areas of emphasis to that program and has set its 1992 safety goals higher than ever,
   - The Company maintains comprehensive insurance and risk allocation programs to protect itself and its owners, and
   - The Company's recycling programs, begun in 1991, will continue to be expanded to additional operational areas.

For the periods reported herein, the Company elected to deactivate certain of its rigs because of depressed industry conditions. The deactivated rigs (three in 1992 and four in 1991) are mat supported slot jackup rigs which have been stacked in clusters.

The Company elected during 1991 and 1992 to suspend marketing of certain rigs in addition to the deactivated rigs discussed above. Such elections have been made due to the significant reduction in jackup rig demand in the Gulf of Mexico and the unfavorable economics associated with marketing and operating rigs at low utilization levels. The Company's objective in electing this strategy is to maximize cash flow (i) by operating a lesser number of rigs at utilization and dayrate levels higher than industry averages and (ii) by maintaining the lowest possible stacking costs for its non-marketed rigs. During the first quarter of 1992, the number of rigs included in the non-marketed category has varied from four to eight rigs and currently includes eight rigs. Rigs falling into this category are maintained in such a manner so as to incur minimal ongoing and reactivation costs. The Company will reactivate those rigs as market demand improves sufficiently to provide improved incremental cash flows compared to current levels or if more lucrative alternative uses can be developed therefor.

The offshore drilling industry continues to be intensely competitive and Gulf of Mexico jackup rig activity during the three month period of 1992 reflects a decrease compared to the prior year period. Incremental utilization and dayrates during 1992 have been subject to downward pressure due to depressed market conditions for natural gas. The following table sets forth certain data regarding both the industry and the Company's jack-up rigs for the periods indicated:

	Daily Averages		
	Three Months Ended		Year Ended
	03-31-92	03-31-91	12-31-91
Industry:			
Worldwide:(1)			
Total jack-up rigs	401	414	410
Contracted jack-up rigs	297	337	326
Utilization rate	74%	81%	80%
Gulf of Mexico:(1)			
Total jack-up rigs	127	154	144
Contracted jack-up rigs	60	105	91
Utilization rate	47%	68%	63%
Company (Historical):			
Total jack-up rigs(2)	19	22(3)	21(3)
Contracted jack-up rigs	4	11	12
Utilization rate	21%	50%	56%
Share of Gulf of Mexico market (contracted jack-up rigs)	7%	10%	13%
Average dayrate(4)	$17,379	$17,072	$15,547

(1) Source: *Offshore Data Services*.

(2) Includes ten and five of the Company's rigs which were not marketed and/or deactivated during 1992 and 1991, respectively.

(3) Calculations include the MARINE 3 of which the Company owns a 50% interest and which is being held for sale as of March 31, 1992.

(4) "Average Dayrate" is determined by dividing the total gross revenue earned by the Company's jack-up rigs during a given period by the total number of days that the Company's rigs worked during that period.

The following analysis discusses the Company's financial condition and results of operations for the three month periods ended March 31, 1992 and 1991.

Results of Operations

Revenues. Drilling revenues from operations for the three months ended March 31, 1992 decreased $11,000,000 (64%) from $17,314,000 to $6,314,000 compared to the same period in 1991. The decrease was primarily the result of decreased rig utilization from 50% to 20% for the three months ended March 31, 1992 compared to the same period in 1991. The decline in utilization is associated with the downturn in the domestic economy and more precisely with the low prices for domestic natural gas. Although the utilization rates decreased, the average dayrates increased from $17,072 per day to $17,379 per day (2%) for the three months ended March 31, 1992 compared to the same period in 1991. This contradictory movement in rig utilization and dayrates is the result of the greater utilization of the larger, more specialized rigs at higher dayrates while the other rigs are utilized less at generally lower dayrates.

Costs and Expenses. Contract drilling expenses for the three months ended March 31, 1992 decreased $7,805,000 (51%) from $15,192,000 to $7,387,000 compared to the same period in 1991. The decrease was primarily the result of decreased rig utilization compared to the same period in 1991 but partially offset by retaining rig crews on certain marketed, but idle, rigs to keep such rigs in a work-ready condition. In addition, the current period included ten non-marketed and/or deactivated rigs compared to five non-marketed rigs for the same period in 1991.

General and administrative expenses for the three months ended March 31, 1992 decreased $1,204,000 (64%) from $1,872,000 to $668,000 compared to the same period in 1991. General and administrative expenses decreased primarily from cost savings related to reductions in staff, the combination of the corporate and marketing offices and the reversal of previously recorded compensation expense related to stock options expiring in 1992.

Interest Expense. Interest expense for the three months ended March 31, 1992 decreased $490,000 (13%) from $3,708,000 to $3,218,000 compared to the same period in 1991. The decrease was primarily the result of lower interest rates applied to certain, and overall decreased, debt for the three month interim period.

Interest Income. Interest income for the three months ended March 31, 1992 decreased $408,000 (88%) from $462,000 to $54,000 compared to the same period in 1991. The decrease was primarily the result of fewer funds available for investment during the respective interim period and lower interest rates.

Other Income and Expense, Net. Other expense, net, for the three months ended March 31, 1992 decreased $432,000 (95%) from $455,000 to $23,000 primarily due to lower rig charter expense.

Liquidity and Capital Resources

HISTORICAL

The Company had negative working capital balances of $86,002,000 and $80,990,000 at March 31, 1992 and December 31, 1991, respectively. The Company's current ratios as of March 31, 1992 and December 31, 1991 were (0.1) and (0.2), respectively. The working capital deficit increased primarily due to negative cash flows resulting from depressed revenues and industry conditions and reclassification of defaulted debt from long-term to current.

The Company provided cash of $2,047,000 for operations for the three months ended March 31, 1992 compared to $2,133,000 used for operations for the same period in 1991. Cash provided by operating activities consisted primarily of a reduction in receivables and other assets. The use of cash in 1991 was primarily related to overall drilling activity.

The Company provided net cash of $8,000 in investing activities for the three months ended March 31, 1992 compared to net cash of $2,693,000 used by investing activities for the same period in 1991. During the first three months of 1991, cash of $2,693,000 was used for the purchase of capital assets, consisting primarily of rig renovation costs, drill pipe, and other items. The Company plans minimal capital expenditures in 1992 with the exception of modifications to certain rigs expected to be relocated to international markets to the extent financing can be arranged.

The Company used net cash of $1,261,000 in financing activities for the three months ended March 31, 1992 compared to net cash of $1,039,000 used by financing activities for the same period in 1991. During the current three month period restricted cash investments decreased $6,410,000 and debt payments of $7,671,000 were made, compared to 1991 results which included decreased restricted cash investments of $648,000 and an increased investment in a partnership by $556,000. The $6,410,000 decrease in restricted cash investments was the result of a lender declaring a note in default by one of the Company's subsidiaries during February 1992. Therefore, the lender applied the restricted cash balance to the principal payment on the note.

As a result of the activities described above, net cash and cash equivalents increased $794,000 during the three months ended March 31, 1992 while net cash and cash equivalents decreased $5,865,000 during the same period in 1991. Cash and cash equivalents at the end of each of those respective periods was $5,297,000 and $15,320,000.

CURRENT LIQUIDITY SITUATION

As a result of deteriorating contract drilling demand, the Company's operating revenues declined markedly in late 1991 and thus far in 1992. The Company and its subsidiaries have inadequate levels of working capital for the near term. Additionally, the Company's financial condition is adversely affecting its ability to contract its rigs. As a result, the Company is presently discussing various alternatives including, but not limited to, a comprehensive restructuring and recapitalization plan with all of its subsidiaries' lenders and most of its preferred stockholders. Substantial amounts of debt and all preferred stock may be exchanged for common stock and certain rigs may be sold, scrapped or offered to the subsidiaries' lenders under the terms of collateral agreements related to long-term debt obligations. Such transactions, if consummated, would likely result in substantial dilution to its common stockholders. The Company has researched the possibility of raising additional capital through sales of assets, however, at the current time it believes that such actions would not result in proceeds sufficient to retire meaningful amounts of debt or provide meaningful increases in working capital. Accordingly, the Company will attempt to raise additional working capital through a sale of securities to its existing stockholders or others in connection with or following a recapitalization.

Virtually all steps being considered by the Company are contingent upon each other and there is no assurance that any action can be completed before the working capital resources of the Company and its subsidiaries are exhausted. In the event that one or more steps of the plan cannot be completed, the Company will attempt to complete those which continue to appear feasible. Alternatively, the Company's subsidiaries will consider several possible actions including reorganization under bankruptcy (Chapter 11), liquidation under bankruptcy (Chapter 7), offering certain rigs to their respective lenders and selling certain rigs. The Company may continue to own and operate certain rigs financed by U.S. Government Guaranteed (Title XI) bonds administered by the United States Maritime Administration (MarAd). These rigs will be operated pursuant to a 1991 agreement among the Company's subsidiaries and MarAd. This agreement provides for those subsidiaries' continued control and operation of the Title XI financed rigs up to eighteen months subsequent to a debt default.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

General

The Company has various claims filed against its subsidiaries in the ordinary course of business, particularly claims alleging personal injuries. It is the belief of management that the Company has established adequate reserves for any liabilities which may reasonably be expected to result from these claims.

In the opinion of management, no pending claims, actions or proceedings against the Company would have a material adverse effect on its financial position or results of operations.

MARINE 7 Litigation

The Company has discovered damage to one of its rigs that reduced its maximum water depth capability. The rig is currently stacked awaiting repair. The Company has conducted extensive negotiations with the manufacturer in an attempt to resolve the responsibility for the repairs and necessary related design modifications. The negotiations were unsuccessful and the Company has initiated litigation against the manufacturer. The repairs and design modifications will likely be delayed during the pendency of the litigation, which could be several years. The ultimate outcome of the litigation cannot be determined and no amount has been recognized in the financial statements for possible collection of any claims asserted in the litigation.

ITEM 2. CHANGES IN SECURITIES

No response required.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

The Company's subsidiaries have failed to make certain principal, interest and guarantee fee payments relating to all five of the Title XI bond agreements. Consequently, the total principal of $58,395,000 and accrued interest of approximately $4,169,000 and guarantee fees of approximately $313,000 are now currently due on the Title XI bonds.

In addition, one of the Company's subsidiaries failed to make a certain principal payment on a note payable to a bank. Additionally, as a result of this default, the lender declared another one of the Company's subsidiaries' note in default, although, the Company considers the lender's actions to be improper with respect to this note. Consequently, the lenders declared both notes immediately due, applied the funds in the Cash Collateral Account against the respective notes and made demand for payment of the outstanding principal balances of $13,501,000 and $9,026,000, respectively.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No response required.

ITEM 5. OTHER INFORMATION

No response required.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

a) Exhibits:

None

b) Reports on Form 8-K:

Report of the Company dated February 10, 1992 disclosing defaults on the indebtedness of certain subsidiaries and the election of Mr. James E. Thomas by the Board of Directors to fill the Director's position previously held by Mr. Ernest H. Pomerantz.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MARINE DRILLING COMPANIES, INC.
(Registrant)

Date: May 14, 1992

By ______________________
William O. Keyes
President, Chairman of the Board
and Director
(Chief Executive Officer)

Date: May 14, 1992

By ______________________
William H. Flores
Senior Vice President - Chief Financial Officer
and Director
(Principal Financial and Accounting Officer)

0 6203

12

92 15 0048

Q 35677

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

RECD S.E.C.
MAY 15 1992
148

QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For Quarter Ending March 31, 1992 Commission File #0-5704

N92-2267

MAYNARD OIL COMPANY
(Exact name of registrant as specified in its charter)

PROCESSED BY
12-12-I
MAY 15 1992

Delaware
(State or other jurisdiction of incorporation or

75-1362284
(IRS Employer Identification No.)

Microfilmed by
Q-Data Corp. - St. Petersburg, FL

8080 N. Central Express exas 75206

L3Q

Registrant's telephone number, including area code: (214)891-8880

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days.

Yes X No ____

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of May 10, 1992.

4,917,829 shares of common stock, par value $0.10

MAYNARD OIL COMPANY AND SUBSIDIARIES

Index to Consolidated Financial Statements and Schedules

Page

Part I. Financial Information

Consolidated Balance Sheets March 31, 1992 and December 31, 1991 3

Consolidated Statements of Operations Three Months ended March 31, 1992 and 1991 4

Consolidated Statements of Shareholders' Equity Three Months ended March 31, 1992 and 1991 5

Consolidated Statements of Cash Flows Three Months ended March 31, 1992 and 1991 6

Notes to Consolidated Financial Statements 7-8

Management's Discussion and Analysis of Financial Condition and Results of Operations 9-11

Signatures 12

MAYNARD OIL COMPANY AND SUBSIDIARIES
Consolidated Balance Sheets

	March 31, 1992 (Unaudited)	December 31, 1991 (Audited)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 7,152,434	$ 6,956,559
Accounts receivable, trade	2,091,016	4,180,571
Refundable income taxes	--	328,000
Inventories	322,825	437,288
Prepaid expenses and other current assets	121,919	502,004
Net assets of discontinued operations	2,575,570	--
Total current assets	12,263,764	12,404,422
Property and equipment, at cost:		
Oil and gas properties, successful efforts method	66,316,563	65,804,903
Drillling rigs and related equipment	--	15,089,237
Transportation and service equipment	--	1,189,914
Other property and equipment	631,521	1,326,542
	66,948,084	83,410,596
Less accumulated depreciation and amortization	(36,143,275)	(48,951,344)
Net property and equipment	30,804,809	34,459,252
	$43,068,573	$46,863,674
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current installments of long-term debt	$2,000,000	$2,000,000
Accounts payable	1,879,823	2,397,874
Accrued expenses	917,324	1,418,969
Total current liabilities	4,797,147	5,816,843
Deferred income taxes	2,036,462	2,371,844
Long-term debt	5,500,000	6,000,000
Shareholders' equity:		
Preferred stock of $.50 par value. Authorized 1,000,000 shares; none issued	--	--
Common stock of $.10 par value. Authorized 20,000,000 shares; 4,917,829 and 5,146,229 shares issued and outstanding at March 31, 1992 and December 31, 1991, respectively	491,783	514,623
Additional paid-in capital	18,607,652	18,607,652
Retained earnings	11,635,529	13,552,712
Total shareholders' equity	30,734,964	32,674,987
Commitments		
	$43,068,573	$46,863,674

MAYNARD OIL COMPANY AND SUBSIDIARIES
Consolidated Statements of Operations

	Three Months ended March 31,	
	1992	1991
Revenues:		
Oil and gas sales and royalties	$ 4,437,938	$ 5,457,518
Costs and expenses:		
Operating expenses	1,609,565	1,758,850
Dry holes and abandonments	15,222	353,164
Lease rentals and seismic	4,842	1,830
General and administrative	468,941	461,284
Depreciation and amortization	1,685,585	1,528,233
	3,784,155	4,103,361
Operating profit	653,783	1,354,157
Other income (deductions):		
Interest income	63,228	117,946
Interest expense	(115,464)	(196,953)
Gain on disposition of assets	46,103	1,614
	(6,133)	(77,393)
Income from continuing operations before income taxes	647,650	1,276,764
Income tax expense	218,115	437,904
Net income from continuing operations	$ 429,535	$ 838,860
Discontinued operations:		
Income (loss) from discontinued operations, net of income tax benefit of $218,000 in 1992 and income tax expense of $77,750 in 1991	(423,096)	140,173
Estimated loss on disposal of discontinued operations, net of income tax benefit of $412,000	(799,828)	--
Net income (loss)	$ (793,389)	$ 979,033
Weighted average number of common shares outstanding	5,008,112	5,187,143
Net income (loss) per common share:		
Continuing operations	$ .08	$ .16
Discontinued operations	(.24)	.03
	$ (.16)	$ .19

MAYNARD OIL COMPANY AND SUBSIDIARIES
Consolidated Statements of Shareholders' Equity
Three Months Ended March 31, 1992
(Unaudited)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Total
	Shares	Amount			
Balance at December 31, 1991	5,146,229	$514,623	$18,607,652	$13,552,712	$32,674,987
Net loss	--	--	--	(793,389)	(793,389)
Purchase and retirement of common stock	(228,400)	(22,840)	--	(1,123,794)	(1,146,634)
Balance at March 31, 1992	4,917,829	$491,783	$18,607,652	$11,635,529	$30,734,964

See accompanying Notes to Consolidated Financial Statements.

MAYNARD OIL COMPANY AND SUBSIDIARIES
Consolidated Statements of Cash Flows

	Three Months ended March 31,	
	1992	1991
Cash flows from operating activities:		
Net income from continuing operations	$ 429,535	$ 838,860
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,685,585	1,528,233
Deferred income taxes	(110,000)	210,000
Dry holes and abandonments	15,222	353,164
Current year costs of dry holes and abandonments	(15,222)	(353,164)
(Gain) loss on disposition of assets	(46,103)	(1,614)
(Increase) decrease in current assets:		
Accounts receivable	585,721	1,260,914
Recoverable income taxes	328,000	--
Inventories	(8,101)	4,052
Prepaid expenses and other current assets	271,942	(132,139)
Increase (decrease) in current liabilities:		
Accounts payable	(203,787)	195,735
Accrued expenses	(50,276)	556,517
Income taxes payable	--	(589,750)
Net cash provided (used) by operating activities of		
Continuing operations	2,882,516	3,870,808
Discontinued operations	(414,044)	1,499,670
Net cash provided by operating activities	2,468,472	5,370,478
Cash flows from investing activities:		
Proceeds from disposition of assets	76,776	2,509
Additions to property and equipment	(578,099)	(2,287,912)
Net cash (used) by investing activities	(501,323)	(2,285,403)
Cash flows from financing activities:		
Principal payments on long-term debt	(500,000)	(500,000)
Purchase of common stock	(1,146,634)	--
Exercise of stock options	--	22,500
Net cash (used) by financing activities	(1,646,634)	(477,500)
Net increase (decrease) in cash and cash equivalents	320,515	2,607,575
Cash and cash equivalents at beginning of year	6,831,919	6,076,635
Cash and cash equivalents at end of period	$ 7,152,434	$ 8,684,210

See Accompanying Notes to Consolidated Financial Statements.

MAYNARD OIL COMPANY AND SUBSIDIARIES
Notes to Consolidated Financial Statements
March 31, 1992
(Unaudited)

1. In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments, consisting of all recurring adjustments, necessary to present fairly the Company's financial position as of March 31, 1992 and December 31, 1991, the results of operations for the three months ended March 31, 1992 and 1991 and changes in cash and cash equivalents for the three months ended March 31, 1992 and 1991.

   The accounting policies followed by the Company are set forth in Note 1 to the Company's financial statements in the 1991 Annual Report to Shareholders.

2. Net income for the three months ended March 31, 1992 is not necessarily indicative of the results of the operations of Maynard Oil Company and Subsidiaries for the year ending December 31, 1992, and is subject to audit adjustments at year-end.

3. Net income (loss) per common share is based on the weighted average number of shares outstanding in each period, which was 4,917,829 and 5,187,141 shares at March 31, 1992 and 1991, respectively. The difference between primary and fully diluted earnings per share, which assumes the exercise of stock options, is not significant.

4. Income before income taxes and components of income tax expense are as follows:

	Three Months Ended March 31,	
	1992	1991
Income before income taxes:	$647,650	$1,276,764
Income tax expense:		
Federal		
Current	$328,115	$ 227,904
Deferred	(110,000)	210,000
Total tax expense	$218,115	$ 437,904

5. On May 4, 1992, the Company adopted a plan to discontinue the operations of BDK Drilling Company (BDK), a wholly-owned subsidiary which engaged in contract drilling services in South Texas. The Company anticipates disposing of the assets of BDK by way of sale. In order to complete existing customer commitments and to provide for the orderly shutdown and disposal of the operation, the phase-out period is expected to run through August 31, 1992. Provision has been made for estimated losses during the phase-out period and the anticipated loss on the sale of BDK's equipment. These amounts have been combined and are included on the Consolidated Statements of Operations under the caption "Estimated loss on disposal of discontinued operations." This loss may be adjusted in future periods depending upon the accuracy of the estimates in relation to the ultimate values realized. The results of the operations of BDK for the first quarter of 1992 are included on the Consolidated Statements of Operations under the caption "Income (loss) from discontinued operations." Operating results of discontinued operations have been reclassified from amounts previously reported and have been reported separately in the Consolidated Statements of Operations and Consolidated Statements of Cash Flows. Revenues from discontinued operations were $1,478,559 and $2,807,258 at March 31, 1992 and 1991, respectively. Additionally the net assets of discontinued operations have been segregated on the March 31, 1992 Consolidated Balance Sheets as follows:

	March 31, 1992
Current assets	$3,863,714
Current liabilities	(1,368,207)
Net property and equipment	80,063
Net assets of discontinued operations	$2,575,570

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations

On May 4, 1992, the Company announced its intention to discontinue the operations of its wholly-owned subsidiary, BDK Drilling Company. BDK performed contract drilling services in South Texas. The Company intends to liquidate the assets of this subsidiary through a sale. Depressed hydrocarbon pricing resulted in lower utilization rates for this segment of the business, and higher costs pushed the margins to unacceptable levels. The results of operations for this segment have been segregated on the Consolidated Statements of Operations under the caption "Discontinued Operations." During the first quarter of 1992, BDK lost $423,096 or eight cents per share, on revenues of $1,478,559 compared with earnings of $140,173, or three cents per share on revenues of $2,807,258 during the same period a year ago. Both of these amounts are stated net of income tax effects, a tax benefit of $218,000 for the current year and tax expense of $77,750 for the prior year, as required by generally accepted accounting principles (GAAP). Currently, BDK is completing the jobs which were in progress on May 4, 1992 and preparing the assets for disposal. It is anticipated that the bulk of the assets will be sold by August 31, 1992. Because a loss is anticipated from the disposal of these assets, the Company has also provided for this loss on the Consolidated Statements of Operations under "Discontinued Operations." This amount, $799,828, or sixteen cents per share, is also recorded net of a $412,000 tax benefit, and consists of the expected proceeds from disposal, net of the book value of the assets plus the anticipated costs of shut-down.

The Company reported net income from continuing operations of $429,535, or eight cents per share, on revenues of $4,437,938 for the quarter ended March 31, 1992, compared with net income from continuing operations of $838,860, or sixteen cents per share, on revenues of $5,457,518 for the same quarter a year ago. Continuing operations are now comprised of oil and gas production and exploration. The oil and gas segment was also unfavorably impacted by lower product pricing, just as the contract drilling segment. The average oil price during the current quarter was $16.62 per barrel compared with $24.01 per barrel during the corresponding quarter of last year, while average gas pricing was $2.07 per thousand cubic feet (mcf) compared with $2.01 a year ago. Oil volumes dropped approximately 4% and gas volumes rose 11%. The effect of combining price and volume variations lowered oil and gas revenues $1,019,580, or 19%. Offsetting this revenue drop was a decline in dry hole expense of $337,942, caused by a reduction in the number of exploratory wells drilled.

Other income and deductions reflected a loss of $6,133 compared with a loss of $77,393 in the same period a year ago. Interest expense, net of interest income, was $26,771 less than the same period a year ago, reflecting better loan rates and a lower amount of debt outstanding.

Liquidity and Capital Resources

At March 31, 1992 the Company's primary source of liquidity was $7,152,434 in cash and marketable securities. This cash, plus cash generated by operating activities and bank borrowings, have historically been utilized to finance the growth of the Company. With the recent discontinuance of operations within the contract drilling segment, and less emphasis placed on exploratory drilling, the Company will concentrate its energies within the oil and gas segment and will continue to seek potential acquisitions of producing properties. Depending upon the size and terms of any such acquisitions, additional financing may be required.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MAYNARD OIL COMPANY

By: Glenn R. Moore
Glenn R. Moore
President

By: Kenneth W. Hatcher
Kenneth W. Hatcher
Vice President of Finance

Dated: May 14, 1992

0 19310

Q 35704

92 15 1304

10

SEC MAIL
RECEIVED
MAY 15 1992
PROCESSING

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

D92.2267

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934

PROCESSED BY
MAY 18 1992
Microfilmed by
Q-Data Corp. - St. Petersburg, FL

FOR QUARTER ENDED, MARCH 31, 199 10/n

COMMISSION FILE NUMBER 0-14358

PARIS BUSINESS FORMS, INCORPORATED
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER) < 34

PENNSYLVANIA	23-1645493
(STATE OF OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(I.R.S. EMPLOYER IDENTIFICATION NO.)

122 KISSEL ROAD, BURLINGTON, NJ 08016

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE 609-387-7300

INDICATE BY CHECK MARK WHETHER THE REGISTRANT (1) HAS FILED ALL REPORTS REQUIRED TO BE FILED BY SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 DURING THE PRECEDING 12 MONTHS AND (2) HAS BEEN SUBJECT TO SUCH FILING REQUIREMENTS FOR THE PAST 90 DAYS.

YES X NO ____

NUMBER OF SHARES OUTSTANDING AS OF MARCH 31, 1992

COMMON STOCK 3,740,317

PARIS BUSINESS FORMS, INC.

CONTENTS

PART I. FINANCIAL INFORMATION:

		Page
ITEM 1.	Financial Statements (Unaudited):	
	Consolidated Balance Sheet - March 31, 1992 and September 30, 1991 (audited)	2
	Consolidated Statement of Income - three months and six months ended, March 31, 1992 and 1991	3
	Consolidated Statement of Cash Flows - six months ended, March 31, 1992 and 1991	4
	Notes to Consolidated Condensed Financial Statements	5
ITEM 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	6-7

PART II. OTHER INFORMATION (Items 1 through 5 - not applicable)

ITEM 6.	Exhibits and Reports on Form 8-K	8
	Signatures Of Registrant	9

PARIS BUSINESS FORMS, INC.
CONSOLIDATED BALANCE SHEET
($000) OMITTED

ASSETS

	MARCH 31, 1992 (UNAUDITED)	SEPTEMBER 30, 1991 (AUDITED)
Current Assets:		
Cash	$ 2,516	$ 1,962
Marketable securities	1,626	1,674
Accounts receivable	5,361	6,417
Inventories	5,165	4,637
Recoverable income taxes	488	316
Prepaid expenses	105	120
Total current assets	15,261	15,126
Property, plant and equipment, net	10,734	10,020
Other assets	250	359
	$26,245	$25,505

LIABILITIES AND SHAREHOLDERS' EQUITY

	MARCH 31, 1992 (UNAUDITED)	SEPTEMBER 30, 1991 (AUDITED)
Current liabilities:		
Current portion of long term debt	$ 311	$ 364
Accounts payable	3,717	3,544
Accrued payroll and related expenses	861	642
Deferred revenues	52	5
Total current liabilities	4,941	4,555
Long term debt	2,025	2,154
Deferred income taxes	1,363	1,363
Total liabilities	8,329	8,072
Shareholders' equity:		
Common stock	16	16
Additional paid in capital	8,588	8,588
Retained earnings	10,571	10,088
Treasury stock	<1,259>	<1,259>
Total shareholders' equity	17,916	17,433
	$26,245	$25,505

PARIS BUSINESS FORMS, INC.
CONSOLIDATED STATEMENT OF INCOME
($000) OMITTED
UNAUDITED

	THREE MONTHS ENDED MARCH 31, 1992	THREE MONTHS ENDED MARCH 31, 1991	SIX MONTHS ENDED MARCH 31, 1992	SIX MONTHS ENDED MARCH 31, 1991
Net Sales	$15,650	$14,450	$31,548	$28,904
Cost of products sold	14,063	13,091	28,335	26,210
Gross profit	1,587	1,359	3,213	2,694
Selling expenses	413	422	829	795
General and administrative expenses	767	700	1,542	1,372
Interest expense	41	74	77	143
Other (income) expense	<35>	<33>	<67>	<87>
Income before taxes	401	196	832	471
Provision for income taxes	157	75	350	180
Net income	$ 244	$ 121	$ 482	$ 291

(FOLLOWING DATA $000 IS NOT OMITTED):

Number of shares	3,740,317	3,740,317	3,740,317	3,745,317
Earnings per share	$0.07	$0.03	$0.13	$0.08

PARIS BUSINESS FORMS, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
($000) OMITTED
UNAUDITED

	SIX MONTHS ENDED MARCH 31, 1992	SIX MONTHS ENDED MARCH 31, 1991
Cash flows from operating activities:		
Net income	$ 482	$ 291
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	633	591
Decrease in deferred taxes		<3>
Provision for losses on accounts receivable	90	69
(Gain)/loss on sale of property, plant and equipment		6
(Increase) decrease in:		
Marketable securities	48	527
Accounts receivable	966	<578>
Inventories	<528>	<159>
Recoverable income taxes	<172>	<169>
Prepaid expenses	15	<60>
Other assets	109	98
Increase (decrease) in:		
Current portion of long term debt	<53>	
Accounts payable	173	1,871
Accrued payroll and related expenses	219	<88>
Deferred revenues	47	<19>
Total adjustments	1,547	2,086
Net cash provided by operating activities	2,029	2,377
Cash flows from investing activities:		
Proceeds from sale of property, plant and equipment		458
Purchase of property, plant and equipment, net	<1,346>	<1,523>
Net cash used in investing activities	<1,346>	<1,065>
Cash flows from financing activities:		
Repayments of long term debt	<129>	<182>
Cash dividends paid		<166>
Purchases of treasury stock		<150>
Repayment of short term working capital loan		<500>
Net cash used in financing activities	<129>	<998>
Net increase (decrease) in cash	554	314
Cash at beginning of period	1,962	1,097
Cash at end of period	$ 2,516	$ 1,411

PARIS BUSINESS FORMS, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

ACCOUNTING POLICIES:

The accompanying unaudited interim consolidated financial statements were prepared in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. The Summary of Accounting Policies and Notes to Consolidated Financial Statements included in the September 30, 1991 Form 10-K should be read in conjunction with the accompanying statements. These statements include all adjustments (consisting only of normal recurring accruals) which the Company believes necessary for a fair presentation of the statements. The interim operating results are not necessarily indicative of the results for a full year.

PARIS BUSINESS FORMS, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OPERATIONS OVERVIEW:

Net sales for the six months ended March 31, 1992 were $31.5 million compared with $28.9 million for the same period in the prior year, for an increase of 9.0%. Net sales in the second quarter were $15.7 million compared to $14.5 million in the comparable quarter in the prior fiscal year, for an increase of 8.3%.

The increase in Fiscal 1992 sales for the first six months compared to Fiscal 1991 sales is $2.6 million. This increase is primarily attributable to our increased market penetration in the Southwest Region of the country and is mostly attributed to our stock form operations.

Gross profit is approximately 10.2% through the first six months of Fiscal 1992 which is slightly better than the 9.3% experienced through the first six months of Fiscal 1991. Even so, uncertainty still prevails as demand is sluggish, pricing is weak and competition to gain market share is fierce. Our start-up, in March 1992, of a stock form plant in Jacksonville, Florida will position us to better service the Southeast Region of the country, however this will have a negative impact on earnings in the current quarter. In addition to the above, the possibility of further paper price increases is a factor which may impact gross profit for the remainder of the Fiscal year.

Net income for the six months ended March 31, 1992 increased to $482,000 from $291,000 in the same period in the prior fiscal year. Net income for the second quarter ended March 31, 1992 increased to $244,000 from net income of $121,000 for the comparable quarter in the prior fiscal year.

COSTS AND EXPENSES:

Selling, general and administrative expenses were 7.5% of sales through the first six months of Fiscal 1992 and the second quarter of Fiscal 1992, which is consistent with the first six months of Fiscal 1991. The start-up of a stock form plant in Jacksonville, Florida in March 1992, is not anticipated to add significant selling, general and administrative costs.

LIQUIDITY AND CAPITAL RESOURCES:

Working capital decreased approximately $251,000 for the six months ended March 31, 1992. Cash provided by operations of approximately $2,029,000 was used to purchase equipment costing approximately $1,346,000, of which approximately $500,000 was used to purchase equipment for the new plant in Jacksonville, Florida and to pay down debt of approximately $182,000.

At March 31, 1992 the Company has an unsecured line of credit payable on demand with a commercial bank under which it can borrow up to $3,000,000 at 1/8% under the Bank's base rate (6.5% at March 31, 1992). The unsecured line of credit expires on January 31, 1993 and has no borrowing against it as of March 31, 1992.

The Company currently has decided not to pursue long term financing and will fund the start-up of its Jacksonville, Florida stock forms plant through internal means. The Company has approximately $2.5 million in cash and cash equivalents and $1.6 million in diversified marketable securities which includes $700,000 in Treasury Bills. The Company believes it has adequate resources through its unsecured line of credit, current resources and cash flow from operations to fund its current operations.

PARIS BUSINESS FORMS, INC.
PART II
OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Computation of Primary Earnings Per Share

Average Number of Common Shares Outstanding During the Period	3,740,317
Weighted Average Number of Shares Issuable Under Common Equivalent Shares Based on Average Market Value of $4.90	-0-
Average Number of Common Shares and Common Equivalent Outstanding	3,740,317

(b) Reports on Form 8-K

No reports on Form 8-K have been filed by the Company during the Quarter ended, March 31, 1992.

PARIS BUSINESS FORMS, INC.
SIGNATURES OF REGISTRANT

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PARIS BUSINESS FORMS, INC.

Dominic P. Toscani, Sr.
President and Chairman of
the Board of Directors

Quay L. Stoner
Vice President of Finance

DATE: May 13, 1992

0 32547
Q 351088

92 15 0609

12

S.E.C.
MAY 1 5 1992
148

FORM 10-Q
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

[X] Quarterly Report Pursuant to Section 13 or 15(d) of
the Securities Exchange act of 1934
For the quarterly period ended March 31, 1992

PGR-2267

or

[ ] Transition Report Pursuant to Section 13 or 15(d) of
the Securities Exchange Act of 1934
For the transition period from _____ to _____

L3Q
PROCESSED BY
MAY 18 1992

mission file number 33-43298-A

Microfilmed by
Q-Data Corp. - St. Petersburg, FL

S. Employer Identification Number 36-3484607

PRINCETON DENTAL MANAGEMENT CORPORATION
(a Delaware Corporation)
(Exact name of registrant as specified in its charter)

12.P

Old Address	New Address of Principal Executive Offices
5226 West Shore Drive	2739 U.S. Highway 19
New Port Richey	Suite 310
Florida 34652	Holiday, Florida 34691
813-848-8797	813-942-3600

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or such shorter period that the registrant was required to file such reports), and (2) has been subject to such filling requirements for the past 90 days. Yes XX No __

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 1,535,000 shares of the Company's Common Stock ($.0001 par value) outstanding as of May 14, 1992.

PRINCETON DENTAL MANAGEMENT CORPORATION
FORM 10-Q

Table of Contents

	Page(s)
PART I - FINANCIAL INFORMATION	
Balance Sheets	3- 4
Statements of Operations	5
Statements of Cash Flows	6
Discussion on Cash Flows	7
Notes to Financial Statements	8- 9
Management Discussion and Analysis of Operations	10
PART II - OTHER INFORMATION AND SIGNATURES	11-12

PRINCETON DENTAL MANAGEMENT CORPORATION

Condensed Balance Sheets

ASSETS	March 31 1992 (Unaudited)	December 31 1991
Current assets:		
Cash	$ 10,583	$ 7,548
Trade accounts receivable, net of allowance for doubtful accounts of $1,272	13,114	16,419
Prepaid expenses	176	176
Total current assets	23,873	24,143
Equipment, at cost	32,351	31,763
Less: Accumulated depreciation	<8,008>	<6,142>
Net equipment	24,343	25,621
Intangibles, net of accumulated amortization of $499 at March 31, 1992	4,501	5,000
Net intangibles	4,501	5,000
Deferred stock offering costs	356,358	221,930
Deposits and other assets	2,600	2,600
Total assets	$ 411,675	$ 279,294

The accompanying notes to condensed financial statements are an integral part of these statements

PRINCETON DENTAL MANAGEMENT CORPORATION

Condensed Balance Sheets

LIABILITIES AND SHAREHOLDERS' DEFICIENCY	March 31 1992 (Unaudited)	December 31 1991
Current Liabilities:		
Accounts payable	$ 32,424	$ 11,228
Notes payable to bank		211,000
Notes payable to shareholders		217,275
Accrued interest payable	1,453	49,251
Accrued payroll and payroll taxes	116,456	55,500
Accrued professional	277,293	156,823
Other current liabilities	12,900	22,451
Current portion due to shareholders	8,085	
Current portion of other long-term debt	1,187	67,178
Total current liabilities	449,798	790,706
Long-term debt:		
Due to shareholders	342,574	
Notes payable to shareholders	228,479	
Accrued interest	57,249	58,549
Total liabilities	1,078,100	849,255
Shareholders' Deficiency:		
Preferred stock, par value $1.00 per share: authorized shares - 1,000,000: issued and outstanding - none	0	0
Common stock, par value $ .0001 per share: authorized shares - 25,000,000: issued and outstanding - 500,000	50	50
Additional paid-in capital	1,533,705	1,533,705
Retained deficit	<2,200,180>	<2,103,716>
Total Shareholders' Deficiency	<666,425>	<569,961>
Total Liabilities and Shareholders' Deficiency	$ 411,675	$ 279,294

The accompanying notes to condensed financial statements are an integral part of these statements

PRINCETON DENTAL MANAGEMENT CORPORATION

Condensed Statement of Operations
(Unaudited)

	Three Months Ended March 31, 1992	Three Months Ended March 31, 1991
Revenue:		
Operating revenue	$ 15,236	$ 0
Other	47	117
Total revenue	15,283	117
Expenses:		
Compensation and benefits	74,297	43,477
Occupancy and equipment	11,101	4,955
Professional fees	6,000	1,537
Interest expense	15,290	20,957
Miscellaneous expense	5,059	4,373
Total expenses	111,747	75,299
Net loss	$ <96,464>	$ <75,182>
Net loss per share	<$.19>	<$.15>
Weighted average number of shares outstanding	500,000	498,452

The accompanying notes to condensed financial statements are an integral art of these statements

PRINCETON DENTAL MANAGEMENT CORPORATION

Condensed Statements of Cash Flows
(Unaudited)

	Three Months Ended March 31, 1992	1991
Cash flows used by operating activities:		
Net loss	$ <96,464>	$ <75,182>
Adjustments to reconcile net loss to net cash provided (used) by operating activities:		
Depreciation and amortization	2,365	12,902
Decrease (increase) in accounts receivable	3.305	0
Increase (decrease) in accounts payable	11.645	0
Increase (decrease) in accrued expenses	189,107	6.510
Net cash used by operating activities	109.958	<55.770>
Investing activities:		
Purchase of equipment	<588>	0
Total investing activities	<588>	0
Net cash provided (used) by financing activities:		
Proceeds from notes payable to shareholders	0	15,000
Proceeds from note payable to bank	15.000	21.000
Proceeds from issuance of long-term debt	16.000	
Proceeds from sales of common stock	0	75.000
Increase in deferred stock offering costs	<134,428>	0
Principal payments on long-term debt	<2,907>	<2,606>
Net cash provided (used) by financing activities	<106,335>	108.394
Net increase cash and cash equivalents	3,035	52.624
Cash and cash equivalents at beginning of period	7.548	2.070
Cash and cash equivalents at end of period	$ 10,583	$ 54,694

The accompanying notes to condensed financial statements are an integral part of these statements.

PRINCETON DENTAL MANAGEMENT CORPORATION

Condensed Statements of Cash Flows
(Unaudited)

Supplemental Schedule of non-cash financing activities:

Convertible debt of $18,862 and accrued interest of $2,555 was converted into 1,548 shares of common stock valued at $13.84 per share at a total issuance price of $21,417 during 1991.

During 1991, notes payable to shareholders of $26,000 was cancelled in exchange for 7,228 shares of common stock valued at $3.60 per share.

NOTES TO CONDENSED FINANCIAL STATEMENTS

PRINCETON DENTAL MANAGEMENT CORPORATION

March 31. 1992
(Unaudited)

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

The accounting policies followed by Princeton Dental Management Corporation (THE "Company") for quarterly financial reporting purposes are the same as those disclosed in the Company's annual financial statements. In the opinion of the management, the accompanying condensed financial statements reflect all adjustments (which consist only of normal recurring adjustments) necessary for a fair presentation of the information presented.

The quarterly condensed financial statements herein have been prepared by the Company without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. Although the Company's management believes the disclosures are adequate to make the information not misleading, it is suggested that these quarterly condensed financial statements be read in conjunction with the audited annual financial statements and footnotes thereto.

NOTE 2 - NOTE PAYABLE TO BANK

The Company has a bank line of credit with interest payable monthly at 9.5% which provides for a maximum borrowing of $300,000. At March 31, 1992. the Company had $74,000 available under this line of credit. On March 3. 1992. the existing line of credit was refinanced to a long-term note in the principal amount of up to $300,000 bearing interest at 9.5% per annum with a maturity date of May 3, 1993. The current principal balance of the note is $226,000 at March 31, 1992. Interest paid for the quarter ended March 31, 1991 and March 31, 1992 were $3,665 and $3,626 respectively.

NOTE 3 - NOTES PAYABLE TO SHAREHOLDERS

Notes payable to shareholders and affiliates in the amount of $231,400 with interest bearing 12% per annum were refinanced to long-term notes at March 31, 1992. The new terms of the note call for a maturity date of May 3, 1993 with interest thereon at the rate of 12% per annum commencing with the original date of the note.

NOTES TO CONDENSED FINANCIAL STATEMENTS - Continued

PRINCETON DENTAL MANAGEMENT CORPORATION

NOTE 4 - LONG-TERM NOTES DUE TO AFFILIATES

Princeton Financial Services unsecured note payable in the amount of $65.617 due within 30 days from the time the Company receives its proceeds from the initial public offering plus interest at 12% has been refinanced to long-term debt at March 31. 1992. The new terms of the note call for a maturity date of May 3. 1993 with interest thereon at the rate of 12% per annum paid at the same date.

NOTE 5 - LONG-TERM NOTE DUE TO A DIRECTOR

An unsecured note payable in the amount of $40,000 due within 30 days from the time the Company receives its proceeds from the initial public offering plus interest at 12% has been refinanced to a long-term note at March 31, 1992. The new term of the note calls for a maturity date of May 3. 1993 with interest thereon at the rate of 12% per annum paid at the same date.

NOTE 6 - SUBSEQUENT EVENT

At March 31. 1992 the Company was in the process of an initial public offering which was effected on April 15. 1992. The gross proceeds from the offering were $4,590.000. The net proceeds to the company, received on April 23. 1992, was in the aggregate amount of $3,963,851.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

On April 15, 1992 the Company effected an initial public offering of 900,000 shares of common stock, $.0001 par value per share and 3,600,000 separately tradeable common stock purchase warrants. Each warrant exercisable upon registration of the common stock underlying such warrants, into one quarter share of common stock at $1.41 per quarter shares until April 14, 1995. The gross and net proceeds to the Company were $4,590,000 and $3,963,851 respectively.

On May 13. 1992 the Company's underwriters exercised their over-allotment option in full and purchased 135,000 shares of common stock and 540,000 warrants at the same price per share of common stock and per warrant and on the same terms as the shares of common stock and warrants as those offered pursuant to the initial public offering. The gross and net proceeds to the Company were $688.500 and $598,935 respectively.

PART II - OTHER INFORMATION

Item 1	LEGAL PROCEEDINGS None
Item 2	CHANGES IN SECURITIES None
Item 3	DEFAULT UPON SENIOR SECURITIES None
Item 4	SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS None
Item 5	OTHER INFORMATION None
Item 6	EXHIBITS AND REPORTS ON FORM 8-K None

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this quarterly report of Form 10-Q for the quarter ended March 31, 1992 to be signed on its behalf, by the undersigned there unto duly authorized.

PRINCETON DENTAL MANAGEMENT
CORPORATION:

DATE: May 14, 1992

BY:
Terry D. Gingle
Chief Executive Officer and
Chief Accounting Officer

-0 8479

92 14 7194 Q 355724

11

Q92-22607

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended March 31, 1992 Commission File Number 0-8623

ROBOTIC VISION SYSTEMS, INC.
(Exact name of Registrant as specified in charter)

DELAWARE	11-2400145
(State or other jurisdiction of incorporation or organization)	IRS Employer Identification Number
425 RABRO DRIVE EAST, HAUPPAUGE, NEW YORK	11788
(Address of principal executive offices)	(Zip code)

Registrant's telephone number, including area code (516) 273-9700

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes X No ____

umber of shares of Common Stock outstanding
s at May 14, 1992 8,083,503

(3)

MAY 15 1992
161

PROCESSED BY
11/11 M
MAY 20 1992

Microfilmed by
Q-Data Corp. - St. Petersburg, FL

No. of Pages 11

BEST COPY AVAILABLE

ROBOTIC VISION SYSTEMS, INC.
AND SUBSIDIARY

CONDENSED CONSOLIDATED BALANCE SHEETS

PART 1. Financial Information

Item 1. Financial statements

	March 31, 1992 (Unaudited)	September 30, 1991
ASSETS		
Current Assets:		
Cash	$ 232,000	$ 174,000
Receivables - net (including unbilled receivables of $211,000 at March 31, 1992 and $785,000 at September 30, 1991)	1,157,000	1,699,000
Inventories (Note 2)	1,836,000	1,420,000
Prepaid expenses and other current assets	224,000	130,000
Total Current Assets	3,449,000	3,423,000
Machinery and equipment, furniture and fixtures (at cost, less accumulated depreciation and amortization)	738,000	709,000
Other assets	61,000	164,000
TOTAL	$ 4,248,000	$ 4,296,000
LIABILITIES		
Current Liabilities:		
Accounts payable	$ 1,715,000	$ 2,325,000
Accrued expenses	1,688,000	1,328,000
Notes Payable to General Motors (Note 3)	-0-	1,286,000
Advance contract payments received	1,871,000	960,000
Total Current Liabilities	5,274,000	5,899,000
Other liabilities	406,000	398,000
Total Liabilities	5,680,000	6,297,000
STOCKHOLDERS' EQUITY (Note 4)		
Capital stock - common - authorized 20,000,000 shares, $.01 par value; issued and outstanding 8,083,503 shares at March 31, 1992 and 6,357,480 shares at September 30, 1991	81,000	64,000
Additional paid-in capital	27,488,000	26,757,000
Accumulated deficit	<29,001,000>	<28,822,000>
Total Stockholders' (Deficiency) Equity	< 1,432,000>	< 2,001,000>
TOTAL	$ 4,248,000	$ 4,296,000

ROBOTIC VISION SYSTEMS, INC.
AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Six Months Ended March 31,		Three Months Ended March 31,	
	1992	1991	1992	1991
Revenues.	$6,360,000	$5,256,000	$2,564,000	$ 2,152,000
Cost of revenues.	3,958,000	3,875,000	1,866,000	1,490,000
Gross profit.	2,402,000	1,381,000	698,000	662,000
Research and development costs	1,270,000	763,000	663,000	410,000
Selling, general and administrative expenses .	1,319,000	1,233,000	626,000	586,000
Interest (income) expense - net	<8,000>	165,000	<10,000>	57,000
Net income (loss) (Note 5).	$ <179,000>	$ <780,000>	$ <581,000>	$ <391,000>
Net income (loss) per common share.	$ <.02>	$ <.12>	$ <.07>	$ <.06>
Weighted average number of shares outstanding . .	7,982,957	6,350,163	8,083,503	6,357,476

ROBOTIC VISION SYSTEMS, INC.
AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended March 31,	
	1992	1991
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$< 179,000>	$< 780,000>
Add noncash items included in net income:		
Depreciation and amortization	133,000	169,000
Cash provided by (applied to) operations	< 46,000>	< 611,000>
Asset and liability management:		
Receivables - net	542,000	< 71,000>
Inventories	< 416,000>	68,000
Prepaid expenses and other current assets	< 94,000>	226,000
Other assets	103,000	79,000
Accounts payable	< 610,000>	< 479,000>
Accrued expenses	360,000	89,000
Notes payable	<1,286,000>	64,000
Advance contract payment received	911,000	203,000
Other liabilities	8,000	< 13,000>
(Increase) decrease in net operating assets	< 482,000>	166,000
Total	< 528,000>	< 445,000>
CASH FLOWS USED IN INVESTING ACTIVITIES - additions to property and equipment	< 162,000>	< 24,000>
CASH FLOWS FROM FINANCING ACTIVITIES - Issuance of common stock	748,000	28,000
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	$ 58,000	$< 441,000>

ROBOTIC VISION SYSTEMS, INC.
AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Condensed Consolidated Financial Statements

The condensed consolidated balance sheet as of March 31, 1992, the condensed consolidated statements of operations for the three and six month periods ended March 31, 1992 and 1991 and the condensed consolidated statements of cash flows for the six month periods then ended have been prepared by the Company, without audit. The consolidated balance sheet as of September 30, 1991 was condensed from the audited balance sheet included in the Company's September 30, 1991 Annual Report on Form 10-K. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial condition, results of operations and cash flows at March 31, 1992 and for all periods presented have been made.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. It is suggested that these condensed consolidated financial statements be read in conjunction with the financial statements and notes thereto included in the Company's September 30, 1991 Form 10-K. The results of operations for the period ended March 31, 1992 are not necessarily indicative of the operating results for the full year.

. Inventories

s of March 31, 1992 and September 30, 1991 inventories consisted of the ollowing:

	March 31, 1992	September 30, 1991
aw Materials	$ 448,000	$ 448,000
ork-in-Process	1,388,000	972,000
Total	$1,836,000	$1,420,000

ubstantially all inventory at March 31, 1992 is related to the LS-2000 lead nspection machine and the HR-2000 electronic solder joint inspection machine.

. Notes Payable

n December 1991, the Company and General Motors Corporation ("GM") entered into n agreement whereby GM would forgive and cancel the Company's indebtedness and he related accrued but unpaid interest thereon and release the security nterest held by GM in the Company's assets as full payment for (i) certain utomotive spare parts inventories held by the Company, (ii) the execution of a ervice agreement under which the Company will provide maintenance and repair ervice for a four-year period and (iii) the Company and its officers and irectors executing an agreement not to bring suit against GM. The effect of his transaction is included in these March 31, 1992 financial statements.

4. Stockholder's Equity

Private Equity Placement - In December 1991, the Company entered into an agreement with a group of investors including a director of the Company. The terms of the agreement provide for up to $1,500,000, before expenses, to be invested in the Company in two installments, after certain conditions have been met. In consideration for the first installment of $750,000, the investors have received 1,500,000 shares of the Company's common stock and warrants to purchase 500,000 shares of the Company's common stock at an exercise price of $1.00 per share. Included in the financial statements at March 31, 1992 is the infusion of the first $750,000, net of expenses. As of April 22, 1992 the Company has qualified to take down the second half of the private equity investment. The Company has until November 30, 1992 to decide if it wishes to exercise its option on this financing which amounts to $750,000.

5. Net Income (Loss)

Net income (loss) for the six months ended March 31, 1992 includes the benefit of $905,000 associated with the settlement of debt to General Motors Corporation.

Item 2. Management's discussion and analysis of financial condition results of operations. - Continued

Three and Six Months Ended March 31, 1992 and 1991

Results of Operations

Net loss for the six months ended March 31, 1992 decreased by $601,000 over the comparable period in 1991; however, if the non-recurring item related to General Motors were excluded, net loss would have increased by $304,000 compared to the previous year's comparable six months.

Liquidity and Capital Resources

The Company's working capital shortfall during the six months ended March 31, 1992 was satisfied by the Company's proceeds from its 1992 private placement. The Company's working capital needs for fiscal 1992 should be satisfied by operating revenues and, if required, the consummation of the second tranche of the 1992 private placement financing. The Company is also exploring other financing options to fund operations in the longer term. The Company currently has no outstanding line of credit and does not anticipate any material capital expenditures in fiscal 1992.

Effect of Inflation

Management believes that during the six months ended March 31, 1992 the effect of inflation has not been material.

Item 2. Management's discussion and analysis of financial condition results of operations. - Continued

Three and Six Months Ended March 31, 1992 and 1991

Results of Operations

Net loss for the six months ended March 31, 1992 decreased by $[illegible]01,000 over the comparable period in 1991; however, if the non-recurring item related to General Motors were excluded, net loss would have increased by $304,000 compared to the previous year's comparable six months.

Liquidity and Capital Resources

The Company's working capital shortfall during the six months ended March 31, 1992 was satisfied by the Company's proceeds from its 1992 private placement. The Company's working capital needs for fiscal 1992 should be satisfied by operating revenues and, if required, the consummation of the second tranche of the 1992 private placement financing. The Company is also exploring other financing options to fund operations in the longer term. The Company currently has no outstanding line of credit and does not anticipate any material capital expenditures in fiscal 1992.

Effect of Inflation

Management believes that during the six months ended March 31, 1992 the effect of inflation has not been material.

Part II. Other Information

Item 4. Submission of matters to vote of Security Holders

(a) On March 26, 1992 Registrant held its Anraul Meeting of Stockholders.

(b) The following six Directors were elected at the meeting to serve for a term of one year or until their respective successors shall have been elected and shall have qualified:

Pat V. Costa	Howard Stern
Donald F. Domnick	Wayne E. Meyer
Jay M. Haft	Robert H. Walker

(c) A proposal to adopt Registrant's 1991 Stock Option Plan was also voted upon at the Annual Meeting. A total of 350,000 shares of Common Stock of the Company has been reserved for issuance under the 1991 plan. The number of affirmative votes and the number of negative votes cast with respect to the adoption of the 1991 Stock Option Plan were 3,630,226 and 662,849, respectively.

Registrant reported the ratification and the approval of the appointment of Deloitte & Touche as the Company's independent auditors for its fiscal year ending September 30, 1992. The number of affirmative votes and the number of negative votes cast with respect to this matter were 5,504,245 and 60,120 respectively.

tem 6. Exhibits and Reports on Form 8-K

(a) Exhibit 11 - Statement re computation of net income (loss) per common share

The weighted average number of shares outstanding used in the computation of net loss per common share does not include shares reserved for issuance described below since their effect on net income (loss) per share is anti-dilutive for each period presented:

Pursuant to outstanding warrants	1,867,693
Pursuant to outstanding stock options.	790,350
Total.	2,658,043

Part II. Other Information - Continued

Item 6. Exhibits and Reports on Form 8-K

(b) During the quarter ended March 31, 1992, Registrant filed a current report on Form 8-K, dated January 28, 1992. The events reported thereon were as follows:

(i) On January 28, 1992, Registrant consummated a private placement of 1,500,000 shares of Common Stock, representing approximately 20% of Registrant's issued and outstanding Common Stock after giving effect to the Private Placement, and warrants to acquire an additional 500,000 shares of Common Stock exercisable through January 1996 at $1.00 per share, from which Registrant derived gross proceeds of $750,000. The purchasers of Registrant's securities in the Private Placement have agreed to purchase a like number of securities which would result in Registrant's receipt of an additional $750,000 if during any three month period ending on November 30, 1992, Registrant shall have received a minimum of $3.0 million in booked firm orders from any combination of its semiconductor lead inspection systems, its printed circuit board solder quality control product and its solder or lead inspection research & development work.

(ii) As last previously reported in Registrant's Annual Report on Form 10-K for its fiscal year ended September 30, 1991, Registrant owed General Motors Corporation ("GM"), a principal stockholder of Registrant, approximately $1.3 million, inclusive of accrued interest. As a prerequisite to the consummation of the Private Placement, Registrant satisfied all of such indebtedness to GM at no significant cost to Registrant by agreeing to sell to GM certain inventory and spare parts previously utilized by Registrant in its automotive robotic systems integration business which was discontinued by Registrant during its fiscal year ended September 30, 1990.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ROBOTIC VISION SYSTEMS, INC.
Registrant

Pat V. Costa

Dated: May 14, 1992

Pat V. Costa
President and CEO
(Principal Executive Officer)

Robert H. Walker

Dated: May 14, 1992

Robert H. Walker
Executive Vice President
and Treasurer
(Principal Financial Officer)

18

20484
92 15 0626
35665

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C., 20549

QUARTERLY REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

R92-22607

For Quarter Ended **March 31, 1992** MAY 15 1992 Commission File No. 33-1983

SURETY CAPITAL CORPORATION
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

75-2065607
(IRS Employer Identification Number)

1845 Precinct Line Road, Suite 100, Hurst, Texas 76054
(Address of principal executive offices)

(817) 498-8154
(Registrant's telephone number, including area code)

PROCESSED BY
MAY [illegible] 1992

Microfilmed by
Q-Data Corp. - St. Petersburg, FL

L 38

Indicate by check mark whether the registrant (1) has all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes _x_ No___

Common stock outstanding on April 30, 1992, 19,814,470 shares

SURETY CAPITAL CORPORATION
CONSOLIDATED BALANCE SHEETS
March 31, 1992 and December 31, 1991
(Unaudited)

	March 31, 1992	December 31, 1991
Assets:		
Cash and due from banks	$ 1,578,210	$ 1,354,473
Federal funds sold	7,020,000	5,060,000
Cash and cash equivalents	8,598,210	6,414,473
Investment securities	94,000	50,500
Net loans	19,509,353	18,914,350
Premises and equipment, net	875,606	907,516
Accrued interest receivable	48,278	48,861
Other real estate and repossessed assets	71,233	108,738
Other assets	72,444	52,073
Excess of cost over fair value of net assets acquired, net of accumulated amortization of $67,868 and $60,526 at March 31, 1992 and December 31, 1991, respectively	372,998	380,340
Total assets	$29,642,122	$26,876,851

LIABILITIES AND SHAREHOLDERS' EQUITY

	March 31, 1992	December 31, 1991
Liabilities:		
Demand deposits	$ 3,857,306	$ 2,574,153
Savings, NOW and money markets	6,531,659	6,611,231
Time deposits, $100,000 and over	4,247,782	4,334,765
Other time deposits	11,298,694	9,814,756
Total deposits	25,935,441	23,334,905
Accrued interest payable and other liabilities	155,577	279,151
Total liabilities	26,091,018	23,614,056
Commitments and contingent liabilities (Notes 5 and 6)		
Shareholders' equity:		
Common stock, $.01 par value, 20,000,000 shares authorized, 18,835,005 and 17,670,621 shares issued and outstanding at March 31, 1992 and December 31, 1991, respectively	188,350	176,706
Additional paid-in capital	4,286,273	4,021,098
Accumulated deficit	(923,519)	(935,009)
Total shareholders' equity	3,551,104	3,262,795
Total liabilities and shareholders' equity	$29,642,122	$26,876,851

The accompanying notes are an integral part
of the consolidated financial statements.

SURETY CAPITAL CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
for the three months ended March 31, 1992 and 1991
(Unaudited)

	Three Months Ended March 31, 1992	Three Months Ended March 31, 1991
Interest income:		
Commercial and real estate loans	$ 179,926	$ 134,371
Consumer loans	188,577	146,816
Insurance premium financing	352,097	302,546
Federal funds sold	61,870	80,014
Investment securities	1,118	10,167
Other interest income	1,724	3
Total interest income	785,312	673,917
Interest expense:		
Interest bearing transaction accounts	62,306	54,209
Time deposits, $100,000 and over	57,371	122,795
Other time deposits	146,494	160,177
Notes payable	—	3,602
Total interest expense	266,171	340,783
Net interest income before provision for loan losses	519,141	333,134
Provision for loan losses	80,000	—
Net interest income	439,141	333,134
Noninterest income	156,249	101,825
Noninterest expense:		
Salaries and employee benefits	259,742	220,401
Occupancy and equipment	91,715	91,921
General and administrative	232,443	172,188
Total noninterest expense	583,900	484,510
Income (loss) before federal income taxes and extraordinary item	11,490	(49,551)
Federal income tax provision	1,724	—
Income (loss) before extraordinary item	9,766	(49,551)
Extraordinary item:		
Tax effect of net operating loss carryforward	1,724	—
Net income (loss)	$ 11,490	($ 49,551)
Income (loss) before extraordinary item per share of common stock	$.00	
Income (loss) per share of common stock	$.00	($0.01)
Weighted average shares outstanding	18,617,483	10,854,963

The accompanying notes are an integral part
of the consolidated financial statements.

SURETY CAPITAL CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
for the three months ended March 31, 1992 and the year ended December 31, 1991
(Unaudited)

	Preferred Stock		Common Stock				
	Shares	Par Value	Shares	Par Value	Additional Paid-in Capital	Accumulated Deficit	Total Equity
Balance at 12/31/90	11,240	$112	9,882,159	$ 98,822	$1,655,169	($344,697)	$1,409,406
Preferred stock dividend, $2.625 per share					(26,810)		(26,810)
Conversion of 11,240 shares of preferred stock	(11,240)	(112)	562,000	5,620	(5,508)		0
Sale of common stock			7,226,462	72,264	2,398,247		2,470,511
Net loss						(590,312)	(590,312)
Balance at 12/31/91	-0-	-0-	17,670,621	176,706	4,021,098	(935,009)	3,262,795
Sale of common stock			1,164,384	11,644	265,175		276,819
Net income						11,490	11,490
Balance at 3/31/92	-0-	$-0-	18,835,005	$188,350	$4,286,273	($923,519)	$3,551,104

The accompanying notes are an integral part of the consolidated financial statements.

SURETY CAPITAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
for the three months ended March 31, 1992 and 1991
(Unaudited)

	Three Months Ended March 31, 1992	Three Months Ended March 31, 1991
Cash flows from operating activities:		
Net income (loss)	$ 11,490	($ 49,551)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Provision for loan losses	80,000	
Depreciation and amortization	52,070	58,098
Net (increase) decrease in other assets	17,717	(78,247)
Net (decrease) increase in other liabilities	(123,574)	10,878
Net cash used in operating activities	37,703	(58,822)
Cash flows from investing activities:		
Purchase of investment securities	(43,500)	
Purchase of premises and equipment	(12,818)	(1,586)
Net increase in loans	(935,919)	(300,233)
Payments received on purchased accounts receivable	2,658,349	653,652
Purchases of accounts receivable	(2,397,433)	(764,210)
Net cash used in investing activities	(731,321)	(412,377)
Cash flows from financing activities:		
Payments on notes payable		(662,660)
Proceeds from borrowings on notes payable		300,000
Increase in deposits	2,600,536	1,751,153
Sale of common stock	276,819	380,000
Preferred stock dividends	———	(4,856)
Net cash provided by financing activities	2,877,355	1,763,637
Net increase in cash	2,183,737	1,292,438
Beginning cash and cash equivalents	6,414,473	5,612,438
Ending cash and cash equivalents	$8,598,210	$6,305,173
Supplemental disclosure:		
Cash paid during the period for interest	$ 282,288	$ 324,891

The accompanying notes are an integral part
of the consolidated financial statements.

SURETY CAPITAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. **Basis of Presentation:**

The condensed financial statements included herein have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading. These condensed financial statements should be read in conjunction with the financial statements and the notes thereto included in the Company's latest annual report on Form 10-K. In the opinion of the Company, all adjustments consisting only of normal recurring adjustments necessary to present fairly the financial position of the Company as of March 31, 1992, and the results of its operations and its cash flows for the indicated periods have been included. The results of operations for such interim period are not necessarily indicative of the results to be expected for the fiscal year ending December 31, 1992.

2. **Net Loans:**

At March 31, 1992 and December 31, 1991, the loan portfolio was composed of the following:

	March 31, 1992	December 31, 1991
Premium financing	$ 8,732,021	$ 8,265,490
Commercial loans	4,657,296	4,886,201
Installment loans	7,071,992	6,669,688
Real estate loans	692,004	738,950
Total loans	21,153,313	20,560,329
Add (deduct):		
Deferred loan origination costs	56,164	58,169
Unearned interest	(1,384,653)	(1,360,942)
Allowance for loan losses	(315,471)	(343,206)
Net loans	$19,509,353	$18,914,350

Activity in the allowance for loan losses is as follows:

	Three Months Ended March 31, 1992	Three Months Ended March 31, 1991
Beginning balance	$343,206	$276,473
Provision for loan losses	80,000	
Loans charged off, net of recoveries	(107,735)	(35,525)
Ending balance	$315,471	$240,948

2. Net Loans, continued:

Loans on which the accrual or interest has been discontinued amounted to approximately $259,000 and $349,000 at March 31, 1992 and December 31, 1991, respectively.

3. Federal Income Tax:

Income tax expense during the three months ended March 31, 1992 contains a charge in lieu of federal income taxes that would have been required to be paid had the Company not been able to utilize an operating loss carryforward. The tax benefit in the amount of $1,724, resulting from such utilization, is shown as an extraordinary item during the period.

4. Regulatory Commitments:

The Company is subject to a number of specific regulatory commitments regarding the acquisition of the Bank and the operations of the Company and the Bank, as described below.

- Comptroller Acquisition Commitment. In connection with the Company's acquisition of the Bank, the Company and the directors of the Bank made the following commitments to the Comptroller by a letter dated November 20, 1989: (i) they will make every effort to abide by the moderate growth projections as set forth in the application submitted to the Federal Reserve and they will promptly advise the Comptroller in writing of any material deviation therefrom; (ii) with respect to the loan portfolio mix of the Bank, they will cause the premium financing loan concentration to decrease annually by ten percent (10%), from sixty-five percent (65%) by the end of 1990 to twenty-five percent (25%) by the end of 1994; and (iii) the foregoing commitments shall stay in full force and effect until lifted by mutual agreement between the Company, the Bank and the Comptroller.

- Federal Reserve Acquisition Commitment. In connection with the acquisition of the Bank, the Company also made a number of commitments to the Federal Reserve in a letter dated November 30, 1989, including the following: (i) the Company will not incur any additional indebtedness without the prior approval of the Federal Reserve; (ii) the Company will not repurchase, redeem or retire any shares of its preferred stock if after such repurchase, redemption or retirement its debt-to-equity ratio will exceed thirty percent (30%); (iii) with respect to the Bank's loan portfolio, the Company will cause the premium financing loan concentration of the Bank to decrease annually by ten percent (10%), from sixty-five percent (65%) by the end of 1990 to twenty-five percent (25%) by the end of 1994; and (iv) the Company will not permit the Bank to acquire brokered funds without the prior approval of the Comptroller.

4. Regulatory Commitments, continued:

- Comptroller Formal Agreement. Since June 26, 1990, the Bank has operated pursuant to a Formal Agreement (the "Formal Agreement") with the Comptroller that requires: (i) achievement and maintenance of an equity capital ratio of at least 5% and development of a capital plan; (ii) development of an annual budget; (iii) implementation of a three-year strategic plan; (iv) adoption of a written program to address deficiencies in insurance premium financing; (v) development of an acceptable methodology for establishing its allowance for loan losses and maintenance of an adequate allowance; and (vi) correction of violations of law. The Formal Agreement was adopted to replace a cease and desist order which was in place prior to the acquisition of the Bank by the Company. The Bank was examined by the Comptroller on November 30, 1991 and this examination included a review of the Bank's compliance with the Formal Agreement. The Comptroller found that as of November 30, 1991 the Bank was in compliance with the provisions of the Formal Agreement, except for the maintenance of an adequate allowance for loan losses and an updated strategic plan. Since that examination, the Bank has increased its allowance for loan losses based upon the most recently available information pertinent to the Company's methodology and has provided the Comptroller with an updated strategic plan. The Company believes that the Bank is now in material compliance with the Formal Agreement, but has not received confirmation from the Comptroller of the Bank's compliance.

- Federal Reserve Memorandum of Understanding. At the last inspection of the Company by the Federal Reserve, the Company was criticized regarding a number of actions including violations of Regulation Y regarding affiliate transactions between the Company and the Bank, unauthorized loans to insiders, and failure to meet commitments upon its acquisition of the Bank. As a result, the Company entered into a Memorandum of Understanding with the Federal Reserve (the "Memorandum"). Pursuant to the Memorandum, the Company agreed to (i) not declare or pay any dividends without prior approval of the Federal Reserve; (ii) submit to the Federal Reserve a written plan to maintain an adequate capital position at the Bank, including the maintenance of adequate risk-based and leverage capital ratios; (iii) not increase its borrowings or incur any debt without the prior written approval of the Federal Reserve; (iv) notify the Federal Reserve in writing in advance of any proposed changes in senior management or directors of the Company; (v) not engage in any lending activity without the prior written approval of the Federal Reserve; and (vi) other miscellaneous matters regarding the Company's operations and business.

5. Concentration of Credit Risk:

The subsidiary bank has a significant concentration of credit, based upon like collateral, in its insurance premium finance portfolio. Insurance premium finance comprises $8,470,125 or (43%) and $7,806,000 or (41%) of consolidated total loans net of unearned interest as of March 31, 1992 and December 31, 1991, respectively. As of March 31, 1992, no group of borrowers writing insurance through any one insurance company represents 10% or more of the Bank's premium finance loans, other than Anchorage Fire & Casualty Insurance Company, which represented approximately 15% of the insurance premium finance loans and approximately 6% of total loans at March 31, 1992.

6. Shareholders' Equity:

During the three months ended March 31, 1992, 1,164,384 shares of the Company's common stock were sold in private placements and incentive stock option exercises, for total consideration, net of expenses, of $276,819.

7. Subsequent Events:

On April 1, 1992, 979,465 shares of common stock were sold in a private placement for an aggregate purchase price of $600,000.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS:

General

Effective December 30, 1989, the Company became a bank holding company registered under the Bank Holding Company Act of 1956, as amended, through the acquisition of Texas National Bank of Lufkin (the "Bank"). Prior to the consummation of this transaction, the Company had principally engaged in the casualty insurance premium financing business, utilizing lines of credit granted by various financial institutions as its source of funds.

Management of the Company has successfully merged its existing insurance premium financing business into the Bank as depicted below:

	Three Months Ended March 31, 1992	Three Months Ended March 31, 1991
INSURANCE PREMIUM FINANCING:		
Average balance outstanding	$ 8,100,947	$ 6,278,958
Average yield	17.4%	19.3%
Interest income	$ 352,097	$ 302,546
CONSUMER, COMMERCIAL AND REAL ESTATE FINANCING:		
Average balance outstanding	$10,762,215	$ 8,691,794
Average yield	13.8%	12.9%
Interest income	$ 370,227	$ 281,190
COST OF FUNDS:		
Average balance outstanding	$24,905,277	$21,009,586*
Average interest rate	4.3%	6.5%
Interest expense	$ 266,171	$ 340,783
AVERAGE MONTHLY AMOUNTS:		
Total interest income	$ 261,770	$ 224,639
Total interest expense	$ 88,724	$ 113,594
Provision for loan losses	$ 26,667	
Noninterest income	$ 52,083	$ 33,942
Noninterest expense	$ 194,633	$ 161,503

Note: *Average balances are computed using daily balances throughout each period.*

Three Months Ended March 31, 1992 Versus Three Months Ended March 31, 1991.

The Company earned $11,490 during the three months ended March 31, 1992 compared to $49,551 in losses during the three months ended March 31, 1991.

Total interest income increased 16.5% to $785,312 from $673,917, while total interest expense decreased 21.9% to $266,171 from $340,783, resulting in a 55.8% increase in net interest income before provision for loan losses to $519,141 from $333,134. The Company's loan growth between these two periods was diversified in all aspects of the loan portfolio. The average volume of consumer, commercial, and real estate lending increased 23.8%, with a modest increase in average yields on those loans from 12.9% to 13.8%. However, the 29.0% growth in the average volume of insurance premium loans was partially offset by a decline in the average yield on those loans from 19.3% to 17.4%. The declining average interest rates paid as a cost of funding this growing loan portfolio also contributed substantially to the increase in net interest income. The average balance of interest bearing deposits increased 18.5%, while the average rate paid dropped from 6.5% to 4.3%, reflecting an overall decline in interest rates in the market.

The rapid growth in the loan portfolio, while generating a 55.8% increase in net interest income before provision for loan losses, has also necessitated increased provisions for loan losses. The Company recorded an $80,000 provision for loan losses during the three months ended March 31, 1992 compared to no provision during the three months ended March 31, 1991. This increase resulted not only from the growth in the Company's loan portfolio, but also from adverse collection experience in the consumer installment portfolio. As the Company's ratio of net charge-offs to average loans increased from .2% to .6% for these periods, the Company provided increasingly larger amounts, through charges to earnings, to maintain the allowance for loan losses at an adequate level. Further deterioration in the loan portfolio may result in the need for additional provisions for loan losses in the future.

The Company's noninterest income increased 53.4% to $156,249 from $101,825 for the three months ended March 31, 1992 and 1991, respectively. This increase compares to a corresponding increase in average noninterest bearing deposits of 50.5% to $3,181,730 from $2,113,722 for these same periods. Noninterest bearing deposits normally generate the majority of noninterest income through service charges.

Noninterest expense increased 20.5%, primarily the result of a 17.8% increase in salaries and employee benefits and a 35.0% increase in general and administrative expenses. The increase in salaries and benefits was due primarily to additional staffing required by the Bank's loan and deposit growth and the establishment of the secured credit card program. Increases in general and administrative expenses relate primarily to legal and professional fees, FDIC assessments, and costs associated with the secured credit card program.

Parent Company Only Results of Operations.

As discussed above, the Company did not own the Bank prior to December 30, 1989. Since that time, the Company has served as a parent company to the Bank and has wound down the Company's own separate business activities. For the three months ended March 31, 1992, the Company had no income, other than equity in net income of the subsidiary bank of approximately $86,000, and approximately $75,000 in noninterest expenses. The noninterest expenses, which increased 47% from the same period in the prior year, consisted primarily of legal and professional fees incurred in the operation of the Company and in the maintenance of the Company's public company status under applicable securities laws and regulations.

AVERAGE BALANCE SHEET

	Three Months Ended March 31, 1992		
	Average Balance	Interest	Average Rate
ASSETS:			
Interest earnings assets:			
U.S. Treasury and agency securities	$ 68,186	$ 1,118	6.6%
Federal funds sold	6,391,648	61,870	3.9%
Loans	19,181,368	722,324	15.1%
Allowance for loan losses	(318,206)	—	—
Total interest earning assets	25,322,996	785,312	12.4%
Cash and due from banks	1,669,667		
Premises and equipment	888,925		
Accrued interest receivable	46,703		
Other real estate owned	31,615		
Other assets	519,513		
Total assets	$28,479,419		
LIABILITIES AND SHAREHOLDERS' EQUITY:			
Interest bearing liabilities:			
Interest bearing demand deposits	$ 6,742,184	$ 62,306	3.7%
Savings deposits	708,977	5,714	3.2%
Time deposits	14,272,386	198,151	5.6%
Federal funds purchased and other borrowed funds	—	—	—
Total interest bearing liabilities	21,723,547	266,171	4.9%
Net interest income		$519,141	
Net interest spread		7.50%	
Net interest income to average earning assets		8.20%	
Noninterest bearing deposits	3,181,730		
Other liabilities	200,908		
Total liabilities	25,106,185		
Shareholders' equity	3,373,234		
Total liabilities and shareholders' equity	$28,479,419		

Allowance for Loan Losses

The Company recorded an $80,000 provision for loan losses during the three months ended March 31, 1992 compared to no provision during the three months ended March 31, 1991. The Company's provision for loan losses is based upon quarterly loan portfolio reviews by management. The purpose of the reviews is to assess loan quality, analyze delinquencies, ascertain loan growth, evaluate potential charge-offs and recoveries, and assess general economic conditions in the market economy. Loan losses different from the allowance provided by the Company are likely, and loan losses in excess of the allowance for loan losses are possible. Loan losses in excess of the amount of the allowance could and probably would have a material adverse effect on the financial condition of the Company. See above for additional discussion.

The ratio of charge-offs, net of recoveries, to average loans during the three months ended March 31, 1992 was .56%. The ratio of the allowance for loan losses to total loans was 1.60% on March 31, 1992. The allowance for loan losses was $315,471 on March 31, 1992.

Current Trends and Uncertainties

The Company is subject to a number of specific regulatory commitments regarding the acquisition of the Bank and the operations of the Company and the Bank, as described below.

- Comptroller Acquisition Commitment. In connection with the Company's acquisition of the Bank, the Company and the directors of the Bank made the following commitments to the Comptroller by a letter dated November 20, 1989: (i) they will make every effort to abide by the moderate growth projections as set forth in the application submitted to the Federal Reserve and they will promptly advise the Comptroller in writing of any material deviation therefrom; (ii) with respect to the loan portfolio mix of the Bank, they will cause the premium financing loan concentration to decrease annually by ten percent (10%), from sixty-five percent (65%) by the end of 1990 to twenty-five percent (25%) by the end of 1994; and (iii) the foregoing commitments shall stay in full force and effect until lifted by mutual agreement between the Company, the Bank and the Comptroller.

- Federal Reserve Acquisition Commitment. In connection with the acquisition of the Bank, the Company also made a number of commitments to the Federal Reserve in a letter dated November 30, 1989, including the following: (i) the Company will not incur any additional indebtedness without the prior approval of the Federal Reserve; (ii) the Company will not repurchase, redeem or retire any shares of its preferred stock if after such repurchase, redemption or retirement its debt-to-equity ratio will exceed thirty percent (30%); (iii) with respect to the Bank's loan portfolio, the Company will cause the premium financing loan concentration of the Bank to decrease annually by ten percent (10%), from sixty-five percent (65%) by the end of 1990 to twenty-five percent (25%) by the end of 1994; and (iv) the Company will not permit the Bank to acquire brokered funds without the prior approval of the Comptroller.

- Comptroller Formal Agreement. Since June 26, 1990, the Bank has operated pursuant to the Formal Agreement with the Comptroller that requires: (i) achievement and maintenance of an equity capital ratio of at least 5% and development of a capital plan; (ii) development of an annual budget; (iii) implementation of a three-year strategic plan; (iv) adoption of a written program to address deficiencies in insurance premium financing; (v) development of an acceptable methodology for establishing its allowance for loan losses and maintenance of an adequate allowance; and (vi) correction of violations of law. The Formal Agreement was adopted to replace a cease and desist order which was in place prior to the acquisition of the Bank by the Company. The Bank was examined by the Comptroller on November 30, 1991 and this examination included a review of the Bank's compliance with the Formal Agreement. The Comptroller found that as of November 30, 1991 the Bank was in compliance with the provisions of the Formal Agreement, except for the maintenance of an adequate allowance for loan losses and an updated strategic plan. Since that examination, the Bank has increased its allowance for loan losses based upon the most recently available information pertinent to the Company's methodology and has provided the Comptroller with an updated strategic plan. The Company believes that the Bank is now in material compliance with the Formal Agreement, but has not received confirmation from the Comptroller of the Bank's compliance.

Federal Reserve Memorandum of Understanding. At the last inspection of the Company by the Federal Reserve, the Company was criticized regarding a number of actions including violations of Regulation Y regarding affiliate transactions between the Company and the Bank, unauthorized loans to insiders, and failure to meet commitments upon its acquisition of the Bank. As a result, the Company entered into a Memorandum of Understanding with the Federal Reserve (the "Memorandum"). Pursuant to the Memorandum, the Company agreed to (i) not declare or pay any dividends without prior approval of the Federal Reserve; (ii) submit to the Federal Reserve a written plan to maintain an adequate capital position at the Bank, including the maintenance of adequate risk-based and leverage capital ratios; (iii) not increase its borrowings or incur any debt without the prior written approval of the Federal Reserve; (iv) notify the Federal Reserve in writing in advance of any proposed changes in senior management or directors of the Company; (v) not engage in any lending activity without the prior written approval of the Federal Reserve; and (vi) other miscellaneous matters regarding the Company's operations and business.

These regulatory requirements and commitments may limit the otherwise permissible business activities of the Company and the Bank and, as such, have an adverse effect on the Company and the Bank. Noncompliance with these regulatory requirements and commitments or any other regulatory or legal requirements of the Company or the Bank could lead to administrative actions or sanctions, including regulatory cease and desist orders, and other regulatory actions as deemed appropriate which could have a material adverse effect on the Company and the Bank.

Current economic trends and other developments, such as substantial reductions of workforce by several large defense-related employers located in the Company's market area could adversely affect the Company's operations. Bell Helicopter and General Dynamics, major defense-related employers in Tarrant County, Texas, have reduced their local work forces by several thousand employees since the beginning of 1989. As the repercussions of such lay-offs, both directly on affected workers and indirectly on area businesses, make themselves fully felt, the subsidiary Bank could experience increased loan delinquencies and losses, decreased loan demand, decreased deposit growth and other symptoms of a depressed local economy.

The Bank does not carry any fidelity or indemnity insurance with regard to actions by employees. The Bank has attempted to obtain coverage at reasonable costs, but has been unable to do so. Federal banking regulations require the Bank to carry such fidelity insurance; however, national bank examiners have been made aware of the Bank's inability to qualify and have not cited the Bank for failure to have such insurance. A loss which would have been covered by insurance if carried could have a material adverse effect on the Company and the Bank. The Bank does not have any pending claims or actions regarding its employees which would have been covered by fidelity insurance if carried by the Bank. The Company is not aware of any persons employed at the Bank who would not be bondable.

The Company may be affected by other uncertainties. Regulatory changes may increase the Company's cost of doing business or otherwise impact it adversely.

Liquidity

The Company's investment securities portfolio, including federal funds sold, and its cash and due from bank deposit balances serve as the primary sources of liquidity. At March 31, 1992, 19.2% of the Bank's interest bearing liabilities were in the form of time deposits of $100,000 and over. If a large number of these time deposits matured at approximately the same time and were not renewed, the Bank's liquidity could be adversely affected. Currently, the maturities of the Bank's large time deposits are spread throughout the year, and the Bank monitors those maturities in an effort to minimize any adverse effect on liquidity.

As a result of the Company's acquisition of the Bank, it has replaced, as a funding source, borrowings from other banks with the deposits accepted by the Bank. Additionally, the Company raised approximately $277,000 during the three months ended March 31, 1992 through the sale in private offerings and incentive stock option exercises of the Company's common stock.

In the longer term, the ability of the Company to meet its cash obligations will depend substantially on its receipt of dividends from the Bank, which are limited by banking statutes and regulations. At March 31, 1992, the Bank had an accumulated deficit of approximately $480,000. The ability of the Bank to pay dividends will be limited until such time that this accumulated deficit is eliminated through profitable operations.

Capital Resources

Shareholders' equity at March 31, 1992 was $3,551,104 as compared to $3,262,795 at December 31, 1991. The increase in equity has been the result of the sale of 1,164,384 shares of common stock by the Company. The Company had consolidated earnings of $11,490 for the three months ended March 31, 1992.

As of December 31, 1992, at which time the risk-based capital framework will be fully implemented, the Bank will be expected to meet a minimum risk-based capital ratio to risk-weighted assets ratio of 8%, of which at least one-half or 4%, must be in the form of Tier 1 (core) capital. The remaining one-half, or 4%, may be either in the form of Tier 1 (core) or Tier 2 (supplementary) capital. The amount of loan loss allowances that may be included in capital after the transition period is limited to 1.25% of risk-weighted assets. The ratio of Tier 1 (core) and the combined amount of Tier 1 (core) and Tier 2 (supplementary) capital to risk-weighted assets for the Bank was 13.2% and 14.7%, respectively, at December 31, 1991 and 13.1% and 14.3%, respectively, at March 31, 1992. The Bank is currently, and expects to continue to be, in compliance with these guidelines through their full implementation.

Pursuant to the Formal Agreement between the Comptroller and the Bank, discussed above, the bank is required to maintain an equity capital to total assets ratio of at least 5% at all times. For purposes of this requirement, the Bank's equity capital consists of common stockholders' equity and preferred stock and related surplus. Common stockholders' equity means common stock, common stock surplus, undivided profits, capital reserves, adjustments for the cumulative effect of foreign currency translation and net unrealized losses on noncurrent marketable equity securities. The Bank's equity capital to total assets ratio was 9.4% at March 31, 1992.

Failure to meet capital requirements in the future could expose the Company and the Bank to possible administrative action by regulatory agencies, including action in the form of sanctions and cease and desist orders, or such other action as the regulatory agency deems appropriate.

The Company has committed to the Federal Reserve that it will not increase its borrowings or incur any debt without the prior written approval of the Federal Reserve. The inability of the Company to borrow could impair the Company's ability to increase capital of the Bank and could have a material adverse effect on the Company.

While the Company believes it has sufficient financing for its working capital needs until the end of its 1992 fiscal year, there can be no assurance that the Company's present capital and financing will be sufficient to finance future operations thereafter. If the Company sells additional shares of common and/or preferred stock to raise funds, the terms and conditions of the issuances and any dilutive effect may have an adverse impact on the existing shareholders. If additional financing becomes necessary, there can be no assurance that the financing can be obtained on satisfactory terms. In this event, the Company could be required to restrict its operations.

The Federal Reserve has announced a policy sometimes known as the "source of strength doctrine" that requires a bank holding company to serve as a source of financial and managerial strength to its subsidiary banks. The Federal Reserve has interpreted this requirement to require that a bank holding company, such as the Company, stand ready to use available resources to provide adequate capital funds to their subsidiary banks during periods of financial stress or adversity. The Federal Reserve has stated that it would generally view a failure to assist a troubled or failing subsidiary bank in these circumstances as an unsound or unsafe banking practice or a violation of Regulation Y or both, justifying a cease and desist other or other endorsement action, particularly if appropriate resources are available to the bank holding company on a reasonable basis. The requirement that a bank holding company, such as the Company, make its assets and resources available to a failing subsidiary bank could have an adverse effect upon the Company and its shareholders.

The Company intends to raise additional funds through private placements of its equity securities. The Company is subject to the uncertainties of the private placement market for small companies. Failure of the Company to obtain required equity through private placements or other sources could have an adverse effect on the Company.

Effects of Inflation

A financial institution's asset and liability structure is substantially different from that of an industrial company, in that virtually all assets and liabilities are monetary in nature and, therefore, the Company's operations are not affected by inflation in a material way. Other factors, such as interest rates and liquidity, exert greater influence on a bank's performance than does inflation. The effects of inflation, however, can magnify the growth of assets in the banking industry. If significant, this would require that equity capital increase at a faster rate than would otherwise be necessary.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

Not applicable.

Item 2. Changes in Securities.

Not applicable.

Item 3. Defaults Upon Senior Securities.

Not applicable.

Item 4. Submission of Matters to a Vote of Security Holders.

Not applicable.

Item 5. Other Information.

Not applicable.

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits

There are no exhibits to this Form 10-Q.

(b) Reports on Form 8-K.

No reports on Form 8-K were filed during the three months ended March 31, 1992.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: May 14, 1992

Surety Capital Corporation

By:________________________
C. Jack Bean
President and Chief Executive Officer

And by:________________________
Bob Hackler, Vice President
and Chief Financial Officer

EWA\0415

92 15 1071

17

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

0 32163
Q 35685

FORM 10-Q

MAY 15 1992
136

Quarterly report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934

For the Quarter Ended March 31, 1992

S92-2260

Commission file number 0-19674

SYQUEST TECHNOLOGY, INC.

(Registrant)

DELAWARE
(State or other jurisdiction of incorporation or organization)

94-2793941
(I.R.S. Employer Identification Number)

PROCESSED BY
/7-16=1
MAY 18 19
, 26

47071 Bayside Parkway
Fremont, California 94538
Telephone: (510) 226-4000
(Registrant's principal executive offices and telephone number)

Microfilmed by
Q-Data Corp. - St. Petersburg, FL

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirement for the past 90 Days.

Yes X No ____

As of March 31, 1992, 10,579,896 shares of the Registrant's common stock, $0.001 par value, were issued and outstanding.

Page 1 of 17 pages
Exhibit Index at page 16

INDEX

SYQUEST TECHNOLOGY, INC.

Page no.

PART I. FINANCIAL INFORMATION

Item 1. Consolidated Condensed Financial Statements (Unaudited)

Consolidated condensed income statements--Three months and six months ended March 31, 1992 and March 31, 1991 ... 3

Consolidated condensed balance sheets--March 31, 1992 and September 30, 1991 ... 4

Consolidated condensed statements of cash flows--six months ended March 31, 1992 and March 31, 1991 ... 5

Notes to consolidated condensed financial statements--March 31, 1992 ... 6-9

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations ... 10-13

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K ... 14

SIGNATURES ... 15

SYQUEST TECHNOLOGY, INC.

CONSOLIDATED CONDENSED INCOME STATEMENTS

(In thousands, except per share data)
(Unaudited)

	Three months ended March 31,		Six months ended March 31,	
	1992	1991	1992	1991
Net revenues	$42,907	$24,737	$82,266	$48,884
Cost of revenues	28,059	18,117	55,090	34,831
Gross Profit	14,848	6,620	27,176	14,053
Operating Expenses:				
Selling, general and administrative	6,523	3,632	12,302	7,091
Research and development	3,738	2,885	7,475	5,293
Total operating expenses	10,261	6,517	19,777	12,384
Income from operations	4,587	103	7,399	1,669
Interest income, net	378	153	568	316
Other income	70	48	77	120
Income before income taxes and extraordinary credit	5,035	304	8,044	2,105
Provision for income taxes	1,410	181	2,432	1,247
Income before extraordinary credit	3,625	123	5,612	858
Extraordinary credit resulting from utilization of net operating loss carryforward	-	108	300	920
Net income	$3,625	$231	$5,912	$1,778
Income per share:				
Income before extraordinary credit	$0.30	$0.01	$0.51	$0.09
Extraordinary credit	0.00	0.01	0.03	0.10
Net income	$0.30	$0.02	$0.54	$0.19
Common and common equivalent shares used in computing per share amounts	12,003	9,562	10,880	9,559

See notes to consolidated condensed financial statements

SYQUEST TECHNOLOGY, INC.
CONSOLIDATED CONDENSED BALANCE SHEETS
(In thousands)

Assets	March 31, 1992 (Unaudited)	September 30, 1991 (Note)
Current assets:		
Cash and cash equivalents	$35,971	$14,799
Short-term investments	511	-
Accounts receivable	15,546	14,832
Inventories	11,333	7,811
Prepaid expenses and deposits	591	551
Deferred income taxes	931	464
Total current assets	64,883	38,457
Equipment and leasehold improvements	29,018	23,885
Less: Accumulated depreciation	(10,991)	(9,904)
Net property and equipment	18,027	13,981
Other assets	377	246
	$83,287	$52,684
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$18,451	$14,523
Accrued income taxes payable	809	674
Accrued expenses and other liabilities	7,097	6,755
Total current liabilities	26,357	21,952
Deferred rent	228	204
Stockholders' equity:		
Preferred stock	-	27,610
Common stock	11	8,791
Additional paid in capital	56,652	-
Retained earnings (deficit)	39	(5,873)
Total stockholders' equity	56,702	30,528
	$83,287	$52,684

Note: The consolidated condensed balance sheet at September 30, 1991 has been derived from the audited consolidated financial statements at that date.

See notes to consolidated condensed financial statements

SYQUEST TECHNOLOGY, INC.

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(In thousands)
(Unaudited)

	Six months ended March 31, 1992	Six months ended March 31, 1991
Operating Activities:		
Net income	$5,912	$1,778
Charges to operations not affecting cash	1,728	2,020
Net changes in certain current assets and current liabilities	(25)	(2,171)
Net cash provided by operating activities	7,615	1,627
Investing activities:		
Purchase of equipment and leasehold improvements	(5,830)	(4,799)
Short-term investments	(511)	-
Other	(131)	10
Net cash used in investing activities	(6,472)	(4,789)
Financing activites:		
Proceeds from issuance of common stock, net of issuance costs	20,029	133
Net cash provided by financing activities	20,029	133
Net increase (decrease) in cash and cash equivalents	21,172	(3,029)
Cash and cash equivalents at beginning of the period	14,799	13,575
Cash and cash equivalents at end of the period	$35,971	$10,546

See notes to consolidated condensed financial statements

SYQUEST TECHNOLOGY, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(UNAUDITED)

MARCH 31, 1992

NOTE: 1 - BASIS OF PRESENTATION

The accompanying unaudited consolidated condensed financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete consolidated financial statements. In the opinion of management, all adjustments considered necessary for fair presentation have been included.

Operating results for the three month and six month periods ended March 31, 1992 are not necessarily indicative of the results that may be expected for the year ending September 30, 1992.

For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Registration Statements on Form S-1 filed with the Securities and Exchange Commission in October 1991 and April 1992 and as amended thereafter.

NOTE: 2 - INVENTORIES

Inventories comprised the following:

	March 31, 1992	September 30, 1991
	(In thousands)	
Raw materials and component parts	$5,013	$3,282
Work in process	3,686	2,596
Finished Goods	2,634	1,933
	$11,333	$7,811

NOTE: 3 - INCOME PER SHARE

Income per share for the three month and six month periods ended March 31, 1992 is based on the weighted average number of shares of common stock outstanding, common equivalent shares from convertible preferred stock (using the as-if-converted method) and dilutive common equivalent shares from stock options (using the treasury stock method).

Income per share for the three month and six month periods ended March 31, 1991 is based on the weighted average number of shares of common stock outstanding, common equivalent shares from convertible preferred stock (using the as-if-converted method) and dilutive common equivalent shares from stock options and warrants (using the treasury stock method). Pursuant to Securities and Exchange Commission Staff Accounting Bulletins, common and common equivalent shares issued during the twelve month period prior to the Company's initial public offering have been included in the calculation as if they were outstanding for all periods prior to September 30, 1991, which includes the three and six-month periods ending March 31, 1991 (using the treasury stock method for the options and warrants at the public offering price).

NOTE: 4 - LINE OF CREDIT

During January 1992, the Company increased its borrowing capacity by entering into a new line of credit agreement with two banks which will expire in June 1993. Borrowings under the line of credit agreement bear interest at the prime rate plus one quarter of one percent and are limited to the lesser of $20,000,000 or the eligible portion of the Company's accounts receivable balance. The line of credit agreement requires the Company to meet certain financial covenants and includes limitations on additional borrowings and payment of dividends. There were no borrowings outstanding under the line of credit agreement in effect as of March 31, 1992, and $10 million was available for borrowing under the line of credit at March 31, 1992.

NOTE: 5 - INCOME TAXES

Income taxes for the three month and six month periods ended March 31, 1992 have been provided for at an estimated provisional tax rate of 28% and 30% respectively, a decrease from the provisional rate of 60% and 59% in the comparable periods in fiscal 1991. The high provisonal tax rate in fiscal 1991 was due primarily to tax laws that do not allow the recognition of a federal benefit for operating losses sustained by the Singapore operations. The Company expects to benefit in fiscal 1992 from the utilization of federal tax credit carryforward and the permanent reinvestment offshore of a portion of the anticipated tax holiday earnings of the Company's Singapore operations.

The net effective tax rate (as adjusted for utilization of the federal net operating loss carryforward) for the three month and six month periods ended March 31, 1992 increased to 28% and 27%, respectively, from 24% and 16% in the comparable periods in fiscal 1991, because the Company's remaining federal net operating loss carryforward as of September 30, 1991 was fully utilized in the first quarter of fiscal 1992.

The Company is required to adopt Statement of Financial Accounting Standards No. 109 (FAS 109), "Accounting for Income Taxes" no later than the first quarter of fiscal 1994. Early adoption has not been elected by the Company. The Company has not decided whether it will implement FAS 109 through a cumulative effect adjustment or restate prior periods. However, the eventual adoption of FAS 109 is not expected to have a material impact on the Company's financial position. The Company currently accounts for income taxes under Accounting Principles Board Opinion No. 11.

NOTE: 6 - STOCKHOLDERS' EQUITY

Shares authorized and outstanding are as follows:

	Shares Outstanding	
	March 31, 1992	September 30, 1991
Preferred Stock $.001 par value, 20,000,000 shares authorized as of September 30, 1991 and 4,000,000 shares authorized as of March 31, 1992	-	12,010,893
Common Stock $0.001 par value, 80,000,000 shares authorized as of September 30, 1991 and 20,000,000 shares authorized as of March 31, 1992	10,579,896	5,544,226

In October and November 1991, the Board of Directors and the stockholders authorized a 1-for-5 reverse split of the Company's common stock. Preferred stock is convertible into common stock on a five for one basis. The common shares presented above have been adjusted to give effect to the 1-for-5 reverse stock split.

In December 1991, the Company raised net proceeds of $19.3 million from the sale of 2,075,000 shares of common stock in an initial public offering. All shares of preferred stock were converted into common stock in December 1991.

NOTE: 7 - 1992 NON-EMPLOYEE DIRECTOR STOCK OPTION PLAN

The Company's 1992 Non-Employee Director Stock Option Plan (the "Director Plan") was adopted by the Board of Directors in February 1992 and approved by the Company's stockholders on April 14, 1992.

The Director Plan is administered by the Board of Directors. Options under the Plan may be granted only to directors who are not employees of the Company or its subsidiaries ("Outside Directors"). All grants of options under the Director Plan are automatic and nondiscretionary.

The exercise price of options granted under the Director Plan is 100% of the fair market value on the date of grant, and options vest one year after grant. A total of 150,000 shares of the Company's common stock have been reserved for issuance under the Plan. As of March 31, 1992, no options have been issued under the Director Plan.

NOTE: 8 - 1992 EMPLOYEE STOCK PURCHASE PLAN

The Company's 1992 Employee Stock Purchase Plan (the "Purchase Plan") was adopted by the Board of Directors in February 1992 and approved by the Company's stockholders on April 14, 1992. The Purchase Plan is intended to qualify under Section 423 of the Internal Revenue Service Code of 1986, as amended.

The Purchase Plan is implemented by a single offering for each six month period commencing on approximately January 1 and July 1 of each year. The Purchase Plan is administered by the Board of Directors or a committee appointed by the Board. The Purchase Plan permits eligible employees to purchase common stock through payroll deductions, which may not exceed 15% of an employee's compensation, at a price equal to 85% of the lower of the fair market value of the common stock as of the first day or as of the last day of each offering period. A total of 500,000 shares of common stock were reserved for issuance under the Purchase Plan. As of March 31, 1992, no common stock had been issued under the Purchase Plan.

Results of Operations:

Net revenues for the quarter ended March 31, 1992 were $42.9 million, 73% higher than the $24.7 million reported in the comparable year-ago quarter. Net revenues for the first six months of fiscal 1992 were $82.3 million, a 68% increase from the $48.9 million reported in the first six months of fiscal 1991. Net revenues increased over the comparable year ago quarter as a result of higher sales volumes; though unit shipments of the 44 megabyte SQ555 were relatively flat, SQ400 cartridge shipments increased 56% over the comparable year-ago quarter. The 88 megabyte SQ5110 drive and related SQ800 cartridge introduced in the second quarter of fiscal 1991 generated $11.9 million of revenue in the second quarter of 1992 compared to $416,000 in the second quarter of 1991. In addition, SyDOS, the DOS systems division formed in the fourth quarter of fiscal 1991, generated incremental net revenue of $3.1 million in the current quarter as compared to the comparable year-ago quarter. For the six month period ended March 31, 1992, net revenue increase resulted from a 13% increase in 44 megabyte SQ555 units shipped over the comparable period in fiscal 1991, while the associated SQ400 cartridge unit shipments increased by 48% over the comparable period in fiscal 1991. SQ5110 drive and associated SQ800 cartridge net revenues were approximately $20.0 million in the six month period ended March 31, 1992 compared to $417,000 for the comparable period in fiscal 1991. SyDOS contributed approximately $5.4 million to net revenues in the six month period ended March 31, 1992.

In order to meet sales demand the Company increased its manufacturing capacity in Singapore by leasing additional manufacturing space for both drive and cartridge production. During the quarter ended March 31, 1992 the Company began the transfer of its cartridge production operations from the U.S. to Singapore. The Company expects to complete the transfer of volume production of SQ400 and SQ800 cartridges to Singapore by the end of calendar 1992.

Cartridge revenues as a percentage of net revenues were 54% for the three month period ended March 31, 1992 compared to 49% for the comparable year-ago period. For the six month period ended March 31, 1992, cartridge revenues as a percentage of net revenues were 53% compared to 49% in the comparable year-ago period.

Gross profit was $14.9 million for the quarter ended March 31, 1992 versus $6.6 million in the comparable year-ago quarter, a 126% increase. For the six months ended March 31, 1992, gross profit totalled $27.2 million, a 93% increase over the $14.1 million reported for the comparable six month period in fiscal 1991. Gross margin was 35% for the quarter ended March 31, 1992 compared to 27% in the year-ago quarter. Gross margin improved to 33% for the six month period ended March 31, 1992 compared to 29% for the same six month period in fiscal 1991. The improvement in gross margin reflected an increase in the portion of net revenues derived from the sales of the Company's cartridges, which have a higher margin, introduction and increased sales of SQ5110 drive and SQ800 cartridge which also have higher margins, reductions in manufacturing costs associated with improvements in capacity utilization and reductions of component material costs.

Research and development expenses were $3.7 million for the quarter ended March 31, 1992, an increase of $853,000 or 30% when compared to the same quarter last year. These expenses represented 8.7% of net revenues for the quarter ended March 31, 1992, compared with 11.7% in the comparable year-ago quarter. For the six month period ended March 31, 1992, research and development expenses amounted to $7.5 million or 9.1% of net revenues compared to $5.3 million or 10.8% of net revenues for the comparable six month year-ago period. For the quarter and the six month period, the increase in research and development expenses is attributable primarily to 2 1/2" and 3 1/2" form factor drive and cartridge development.

Selling, general, and administrative expenses for the quarter ended March 31, 1992 totalled $6.5 million, an increase of $2.9 million or 80% over the prior year-ago quarter. As a percentage of net revenues, selling, general and administrative expneses were 15.2% for the quarter ended March 31, 1992 and 14.7% for the quarter ended March 31, 1991. For the six months ended March 31, 1992, selling, general and administrative expenses were $12.3 million or 15.0% of net revenues versus $7.1 million and 14.5% of net revenues in the comparable year-ago period. Primary contributors to this increase were an increase in staffing and promotional activities to focus on distributor sales, the addition of management and other employees to support growth experienced during these periods, the creation of SyDOS, and increased advertising expenses to promote brand recognition.

Interest income for the quarter ended March 31, 1992, amounted to $378,000 compared to $153,000 in the comparable year-ago quarter. In the six month period ended March 31, 1992 interest income was $568,000 versus $316,000 for the comparable six month period last year. The increase in interest income is a result of the Company's higher average cash balances during both the three and six month periods in fiscal 1992, offset in part by lower prevailing interest rates. The Company raised $19.3 million net of issuance costs in its initial public offering in December 1991.

Income taxes for the three month and six month periods ended March 31, 1992 have been provided for at estimated provisional tax rates of 28% and 30% respectively, a decrease from the provisional tax rates of 60% and 59% in the comparable periods in fiscal 1991. The high provisional tax rates in fiscal 1991 were due primarily to tax laws that do not allow the recognition of a federal benefit for operating losses sustained by the Singapore operations. The Company expects to benefit in fiscal 1992 from utilization of federal tax credit carryforwards and the permanent reinvestment offshore of a portion of the anticipated tax holiday earnings of the Company's Singapore operations. The net effective tax rates (as adjusted for utilization of the federal net operating loss carryforward) for the three month and six month periods ended March 31, 1992 increased to 28% and 27%, respectively, from 24% and 16% in the comparable periods in fiscal 1991, because the Company's remaining federal net operating loss carryforward as of September 30, 1991 was fully utilized in the first quarter of fiscal 1992.

The Company is required to adopt Statement of Financial Accounting Standards No. 109 (FAS 109), "Accounting for Income Taxes" no later than the first quarter of fiscal 1994. Early adoption has not been elected by the Company. The Company has not decided whether it will implement FAS 109 through a cumulative effect adjustment or restate prior periods. However, the eventual adoption of FAS 109 is not expected to have a material impact on the Company's financial position. The Company currently accounts for income taxes under Accounting Principles Board Opinion No. 11.

Liquidity and Capital Resources:

SyQuest was financed originally through private placements of equity securities. From January 1986 until December 1991, the Company's growth was financed primarily through internally generated funds. In December 1991, the Company completed an initial public offering raising $19.3 million net of issuance costs. The Company also raised $700,000 from the exercise of outstanding stock options during the six month period ended March 31, 1992.

In April 1992, the Company filed a Registration Statement on Form S-1 with the Securities and Exchange Commission to effect a second public offering of its common stock. The Company registered 2,012,500 shares of common stock for sale of which 450,000 shares will be new shares offered by the Company and 1,562,500 shares of the offering will come from existing shareholders (262,500 shares of which are subject to an over allotment option which may be exercised by the Company's underwriters). Proceeds to the Company, net of issuance costs, are estimated at $8.8 million. There are no assurances this offering will be completed or that the estimated net proceeds to the Company will be received.

At March 31, 1992, the Company had cash and cash equivalents of $36.0 million and working capital of $38.5 million. During the six month period ended March 31, 1992 , cash and cash equivalents increased by $21.1 million. The Company during the six month period ended March 31, 1992 generated $7.6 million of cash from operations. The Company used $5.8 million for the purchase of equipment and leasehold improvements principally related to the Company's expansion of its manufacturing facilities in Singapore and advanced manufacturing equipment for the SyCo and Iota Memories products in development.

The Company has a line of credit with two banks under which up to $20 million may be borrowed based on percentages of eligible accounts receivable. The line of credit agreement requires the Company to meet certain financial covenants and includes limitations on additional borrowings and payment of dividends. As of March 31, 1992 there were no borrowings outstanding under this facility, which expires in June 1993.

The Company expects to spend approximately $8.4 million on capital expenditures and leasehold improvements through the end of fiscal 1992, funded through a combination of the Company's existing cash balances, any cash flow from operations, proceeds from its second public offering of common stock discussed above, credit facilities and other forms of financing. In addition, although no such transactions are being negotiated, the Company may also make investments in or acquire other businesses or technologies.

PART II. OTHER INFORMATION

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The information concerning the approval of the adoption of the Company's 1992 Non-Employee Director Stock Option Plan and 1992 Employee Stock Purchase Plan by the Company's stockholders at the annual meeting of stockholders held on April 14, 1992, set forth in Note 7 and Note 8 to the Consolidated Condensed Financial Statements contained in Part I is hereby incorporated by reference. 6,549,236 shares of the Company's issued and outstanding common stock voted for the 1992 Employee Stock Purchase Plan, and 218,782 shares of common stock voted against it. 6,290,941 shares of the Company's issued and outstanding common stock voted for the 1992 Non-Employee Director Stock Option Plan, and 427,461 shares of common stock voted against it.

Item 6. EXHIBITS AND REPORTS ON FORM 8-K

a) Exhibit 11.1 Computation of Earnings Per Share

b) Reports on Form 8-K

None filed.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SYQUEST TECHNOLOGY, INC.
(Registrant)

DATE: ______________________ BY: ______________________

Michael J. Perez
Vice President and
Chief Financial Officer

DATE: ______________________ BY: ______________________

Syed H. Iftikar
President and
Chief Executive Officer

EXHIBIT INDEX

EXHIBIT	Sequentially Numbered Page
Exhibit 11.1 - Computation of EPS	17

SYQUEST TECHNOLOGY, INC.

EXHIBIT 11.1

COMPUTATION OF EARNINGS PER SHARE

(In thousands, except per share data)

	Three months ended March 31, (1)		Six months ended March 31, (1)	
	1992	1991	1992	1991
Income before extraordinary credit	$3,625	$123	$5,612	$858
Extraordinary credit	0	108	300	920
Net income	$3,625	$231	$5,912	$1,778
Common and common equivalent shares outstanding:				
Common stock	10,469	5,436	8,166	5,421
Convertible preferred stock	-	2,403	1,201	2,402
Anti-dilution of preferred stock	-	300	150	301
Options	1,534	1,211	1,363	1,217
Warrants	-	-	-	6
Common and common equivalent shares related to stock and option issuances in accordance with SAB No. 55,64 and 83 for the period ended October 1, 1990 through September 30, 1991	-	212	-	212
Common and common equivalent shares used in computing per share amounts	12,003	9,562	10,880	9,559
Income per share before extraordinary credit	$0.30	$0.01	$0.51	$0.09
Extraordinary credit per share	0.00	0.01	0.03	0.10
Net income per share	$0.30	$0.02	$0.54	$0.19

(1) Primary and fully diluted income per share are the same for the three and six month periods ended March 31, 1992 and March 31, 1991.

92 14 1205

O 10127
Q 350676

8

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

T92-22607

FORM 10-Q

Quarterly Report Under Section 13 or 15 (d)
of the Securities Exchange Act of 1934

For the quarter ended March 31, 1992 Commission file number 1-1207

UNION TANK CAR COMPANY
(Exact name of registrant as specified in its charter)

Delaware	36-3104688
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

225 West Washington Street, Chicago, Illinois 60606
(Address of principal executive offices)

Registrant's telephone number, including area code: (312) 372-9500

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes __X__ No ______.

There is no voting stock held by non-affiliates of the registrant. This report is being filed by the registrant as a result of undertakings made pursuant to Section 15 (d) of the Securities Exchange Act of 1934 with respect to certain long-term debt of the registrant.

Included in this filing are 8 pages, sequentially numbered in the bottom center of each page.

PROCESSED BY
L3U 8 R.M
MAY 14

Microfilmed by
Q Data Corp. - St. Petersburg, FL

UNION TANK CAR COMPANY AND SUBSIDIARIES

INDEX

Page

Part I. Financial Information

Item 1.

Condensed consolidated statement of income - three month periods ended March 31, 1992 and 1991 3

Condensed consolidated balance sheet - March 31, 1992 and December 31, 1991 4

Condensed consolidated statement of cash flows - three months ended March 31, 1992 and 1991 5

Notes to condensed consolidated financial statements 6

Item 2.

Management's Discussion and Analysis of Financial Condition and Results of Operations 7

Part II. Other Information

Item 1.

Legal Proceedings 8

Item 6.

Exhibits and Reports on Form 8-K 8

Signatures 8

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

UNION TANK CAR COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF INCOME

(Dollars in Thousands)
(Unaudited)

	Three Months Ended March 31,	
	1992	1991
Revenues		
Services (leasing and other)	$100,815	$ 94,414
Net sales	18,684	24,704
	119,499	119,118
Other income	8,055	11,905
	127,554	131,023
Costs and expenses		
Cost of services	51,295	46,192
Cost of sales	15,355	20,207
General and administrative	12,306	12,232
Interest	27,746	29,108
	106,702	107,739
Income before income taxes	20,852	23,284
Provision for income taxes		
Current	6,476	4,664
Deferred	3,266	4,775
Deferred investment tax credits	(739)	(754)
	9,003	8,685
Net income	$ 11,849	$ 14,599

See notes to condensed consolidated financial statements.

UNION TANK CAR COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEET

(Dollars in Thousands)
(Unaudited)

ASSETS

	March 31, 1992	December 31, 1991
Cash and cash equivalents	$ 19,030	$ 21,935
Accounts receivable	50,995	62,854
Inventories	46,984	47,964
Note receivable, due on demand	500	4,000
Prepaid expenses and deferred charges	10,520	10,042
Advances to parent company, principally at LIBOR plus 1%	244,455	302,222
Other assets	32,138	33,021
Rail car lease fleet, net	1,622,524	1,619,196
Fixed assets, net	103,430	104,431
Investment in direct financing lease	46,465	48,095
	$2,177,041	$2,253,760

LIABILITIES, DEFERRED ITEMS AND STOCKHOLDER'S EQUITY

Accounts payable	$ 10,543	$ 15,816
Accrued liabilities	107,901	99,709
Due to affiliate	34,743	35,099
Borrowed debt	1,049,732	1,131,558
	1,202,919	1,282,182
Deferred items		
Income taxes	503,013	503,227
Investment tax credits	36,742	37,833
	539,755	541,060
Stockholder's equity		
Common stock and additional capital	111,341	111,341
Retained earnings	323,026	319,177
Total stockholder's equity	434,367	430,518
	$2,177,041	$2,253,760

See notes to condensed consolidated financial statements.

UNION TANK CAR COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(Dollars in Thousands)
(Unaudited)

	Three Months Ended March 31,	
	1992	1991
Cash flows from operating activities:		
Net income	$ 11,849	$ 14,599
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	25,673	23,518
Other non-cash income and expenses	(117)	(204)
Changes in assets and liabilities		
Accounts receivable	11,732	(6,228)
Inventories	802	(2,575)
Prepaid expenses	(479)	708
Accounts payable and accrued expenses	2,908	7,292
Deferred taxes	2,527	5,034
Other	136	253
Net cash provided by operating activities	55,031	42,397
Cash flows from investing activities:		
Proceeds from disposals of rail cars and other fixed assets	2,735	2,757
Decrease in advance to parent	62,910	7,673
Decrease in other assets and investments	-	2,253
Construction and purchase of rail cars and other fixed assets	(41,129)	(38,124)
Collection of demand note and long-term receivables	3,500	1,778
Net cash provided by (used in) investing activities	28,016	(23,663)
Cash flows from financing activities:		
Net commercial paper borrowings (repayments)	(67,230)	6,159
Principal payments of long-term debt	(10,835)	(11,303)
Advance from affiliate	624	1,077
Cash dividend	(8,000)	(10,000)
Net cash used in financing activities	(85,441)	(14,067)
Effect of exchange rates on cash and cash equivalents	(511)	45
Net increase (decrease) in cash	(2,905)	4,712
Cash and cash equivalents at beginning of year	21,935	15,097
Cash and cash equivalents at end of period	$ 19,030	$ 19,809
Cash paid during the period for:		
Interest (net of amount capitalized)	$ 15,589	12,409
Income taxes	8,071	4,736

See notes to condensed consolidated financial statements.

UNION TANK CAR COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in Thousands)
(Unaudited)

1. Union Tank Car Company (the Company) is a wholly-owned subsidiary of Marmon Industrial Corporation (Marmon Industrial). Marmon Industrial is a wholly-owned indirect subsidiary of Marmon Holdings, Inc. (Marmon Holdings), substantially all of the stock of which is owned, directly or indirectly, by trusts for the benefit of the lineal descendants of Nicholas J. Pritzker, deceased, and entities controlled by such trusts.

2. The accompanying unaudited condensed consolidated financial statements include all adjustments, consisting of normal recurring accruals, which the Company considers necessary for a fair presentation. These interim financial statements do not include all disclosures normally provided in annual financial statements. Accordingly, they should be read in conjunction with the consolidated financial statements and notes thereto in the Company's 1991 Annual Report on Form 10-K.

   The foregoing 1992 interim results are not necessarily indicative of the results of operations for the full year 1992.

3. The Company and its subsidiaries have been named as defendants in a number of lawsuits, and certain claims are pending. The Company has accrued what it reasonably expects to pay in final settlement of these matters, to the extent not covered by insurance, and, in the opinion of management, their ultimate resolution will not have a material effect on the Company's consolidated financial position or results of operations.

4. As more fully described in the Company's 1991 Annual Report on Form 10-K, under an arrangement with Marmon Industrial, the Company is included in the consolidated federal income tax return of Marmon Holdings. As a member of a consolidated federal income tax group, the Company is contingently liable for the federal income taxes of the other members of the group.

   The Company has not adopted Financial Accounting Standards Board Statement No. 109, "Accounting for Income Taxes," as of March 31, 1992. See footnote 9 of the notes to consolidated financial statements in the Company's 1991 Annual Report on Form 10-K for further discussion.

5. Foreign currency translation adjustments and transaction gains and losses are assumed by the Company's parent. For the three months ended March 31, 1992 and 1991, Marmon Industrial absorbed a loss of $69 and a gain of $38, respectively.

6. At March 31, 1992 the Company had outstanding $98,500 face value of commercial paper with a discount of $555 and an average effective interest yield of 4.58%. Commercial paper maturities range from one to three months from the date of issuance. The commercial paper is included in borrowed debt.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations

1st Quarter 1992 versus 1991

Service revenues increased primarily due to the effect of cars added to the rail car lease fleet. Gross margins increased accordingly, but were partially offset by higher repair costs incurred.

Sales revenues decreased due to lower domestic rail car sales.

Other income decreased $3.9 million primarily due to reduced interest income resulting from lower interest rates as well as lower average outstanding balance on advances to the Company's parent.

Income taxes as a percentage of income before taxes increased due to higher effective tax rates on foreign income.

1992 versus 1991

Financial Condition

Operating activities provided $55.0 million of cash. These funds, along with the collection of funds previously advanced to parent, were used to provide interim financing for rail car additions, service commercial paper and long-term debt obligations and pay a dividend to the Company's stockholder.

Management expects future cash to be provided by operating activities, commercial paper borrowings and long-term rail car financings will be adequate to provide for the continued expansion of the Company's business and enable it to meet its debt service obligations.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The information required by Item 1 appears on page 6 of the Company's Form 10-Q for the quarter ended March 31, 1992 and is incorporated herein by reference.

Item 6. Exhibits and Reports on Form 8-K

b. No report on form 8-K was filed during the three months ended March 31, 1992.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

UNION TANK CAR COMPANY

REGISTRANT

Date: May 11, 1992

R.C. Gluth
Executive Vice President,
Treasurer and Director
(principal financial officer and
principal accounting officer)

0 28549

Q 356098

Manually Signed
Page 1 of 13 pages
Exhibit Index on page 11
13

SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

92 12 3711

FORM 10-Q

Q92-2267
14
071

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the quarterly period ended March 31, 1992.

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the transition period.

Commission File Number: 0-17921

VENCOR, INCORPORATED
(Exact name of Registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**61-1055020** (I.R.S. Employer Identification No.)
700 Brown & Williamson Tower **Louisville, Kentucky** (Address of principal executive offices)	**40202** (Zip Code)

Registrant's telephone number, including area code: (502) 569-7300

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No ____

The number of shares outstanding of the Registrant's common stock, $.25 par value, on April 15, 1992 was 17,804,658.

PROCESSED BY
12-11-V
APR 29 1992
C3A1

Microfilmed by
Q-Data Corp. - St. Petersburg, FL

VENCOR, INCORPORATED
INDEX

Page Number

PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements (Unaudited)
Condensed Consolidated Balance Sheets at March 31, 1992 and December 31, 1991 3

Condensed Consolidated Statements of Operations for the three months ended March 31, 1992 and 1991 4

Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 1992 and 1991 5

Notes to Condensed Consolidated Financial Statements -- March 31, 1992 6

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations 7-8

PART II. OTHER INFORMATION

Item 1. Legal Proceedings 9
Item 2. Changes in Securities 9
Item 3. Defaults Upon Senior Securities 9
Item 4. Submission of Matters to a Vote of Security Holders 9
Item 5. Other Information 9
Item 6. Exhibits and Reports on Form 8-K 9
SIGNATURES 10

PART I. FINANCIAL INFORMATION
ITEM 1
VENCOR, INCORPORATED

CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31 1992 (Unaudited)	December 31 1991 (Note)
	(In thousands)	
Assets		
Current Assets		
Cash and cash equivalents	$25,353	$43,423
Patient accounts receivable, less allowance for doubtful accounts of $1,752,000 in 1992 and $1,572,000 in 1991.	47,006	38,875
Inventories	2,387	2,013
Other current assets	8,145	7,281
Total Current Assets	82,891	91,592
Property and Equipment, less accumulated depreciation of $6,772,000 in 1992 and $5,718,000 in 1991.	67,559	52,468
Other Assets	5,058	4,174
Total Assets	$155,508	$148,234
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable	$9,932	$8,409
Accrued compensation and benefits	8,447	7,444
Income taxes payable	2,726	2,570
Current portion of long-term debt	309	343
Total Current Liabilities	21,414	18,766
Deferred Credits and Other Liabilities	3,427	2,555
Long-Term Debt, less current portion	885	866
Shareholders' Equity		
Common Stock, par value $.25 per share; authorized 20,000,000 in 1992 and 1991; issued 18,316,319 and 18,305,770 in 1992 and 1991.	4,579	4,577
Paid-in capital	106,546	106,230
Retained Earnings	19,172	15,849
	130,297	126,656
Less cost of Common Stock held in treasury (511,661 shares in 1992 and 605,801 in 1991)	515	609
Total Shareholders' Equity	129,782	126,047
Total Liabilities and Shareholders' Equity	$155,508	$148,234

See notes to condensed consolidated financial statements.

Note: The balance sheet at December 31, 1991 has been derived from the audited financial statements at that date.

VENCOR, INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(In thousands except per share data)

	Three Months Ended March 31	
	1992	1991
Net Revenues		
Net revenues – patient services	$46,213	$26,960
Other revenues	713	1,136
Total Net Revenues	46,926	28,096
Expenses		
Hospital operating expenses	37,673	23,009
Corporate general and administrative expenses	2,323	1,311
Depreciation and amortization	1,299	473
Interest	78	358
Total Expenses	41,373	25,151
Income Before Taxes	5,553	2,945
Income Taxes	2,230	1,215
Net Income	$3,323	$1,730
Common Share	$0.18	$0.12
Equivalent Shares Outstanding	18,386,693	14,197,314

See notes to condensed financial statements.

VENCOR, INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)
(In thousands)

	Three Months Ended March 31	
	1992	1991
Operating Activities		
Net income	$3,322	$1,730
Adjustments to reconcile net income to net cash provided from operating activities:		
Provision for allowance for doubtful accounts	483	205
Other adjustments to net income	2,520	449
Changes in operating assets and liabilities	(7,129)	(496)
Net Cash (Used in) Provided by Operating Activities	(804)	1,888
Investing Activities		
Property and equipment additions	(3,358)	(4,012)
Net assets of acquired hospitals	(12,788)	(2,342)
Other assets	(1,129)	(1,430)
Net Cash Used in Investing Activities	(17,275)	(7,784)
Financing Activities		
Net proceeds from sale of Common Stock	0	34,452
Decrease in notes payable	0	(285)
Increase in long-term debt	20	1,600
Payments on long-term debt	(35)	(14,482)
Net proceeds from shareholders' equity transactions	24	0
Net Cash Provided by Financing Activities	9	21,285
(Decrease) Increase in Cash	(18,070)	15,389
Cash and Cash Equivalents at Beginning of Year	43,423	4,485
Cash and Cash Equivalents at End of Period	$25,353	$19,874

See notes to condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) MARCH 31, 1992

Note 1

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three month period ended March 31, 1992 are not necessarily indicative of the results that may be expected for the year ended December 31, 1992. For further information, refer to the financial statements and footnotes thereto included in the Company's annual report to shareholders, which are incorporated by reference into the Company's annual report on Form 10-K for the year ended December 31, 1991.

Note 2

The Company insures for medical malpractice losses through claims-made policies, which, in the opinion of management, are adequate to cover losses, if any. Should the claims-made policies not be renewed or replaced with equivalent insurance, claims based upon occurrences during their terms but reported subsequently will be uninsured. The Company intends to continue to carry such insurance. The Company accrues its best estimate of losses as determinable.

Note 3

During the first quarter of 1992, the Company purchased three hospital facilities (principally land, buildings and equipment) for approximately $12,788,000.

ITEM 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

I. RESULTS OF OPERATIONS

Three Months Ended March 31, 1992 Compared to March 31, 1991

Net revenues for the three months ended March 31, 1992, increased to $46,926,000 from $28,096,000, an increase of 67.0%. Net revenues from hospitals increased to $46,213,000 from $26,960,000. Of the $19,253,000 increase in hospital net revenues, 38.2% was attributable to net revenues from six new hospitals and 61.8% was attributable to a higher patient census and a more favorable payor mix at the 13 hospitals that were in operation during both periods.

Patient days increased to 49,987 from 31,837, an increase of 57.0%. Of the 18,150 increase in patient days, 66.0% was due to higher census at those hospitals in operation during both periods, and 34.0% was attributable to new hospitals.

Charge-based net revenue increased 37.8% from $15,840,000 in 1991 to $21,829,000 in 1992.

Other revenues decreased 37.2% from $1,136,000 in 1991 to $713,000 in 1992. Other revenues in 1991 included management fee income of $240,000. The Company's agreement to manage Vencor Hospital • South Louisiana was terminated in February 1991. Other revenues in 1991 also included non-recurring collection fee income of $515,000. In 1992, other revenue included $324,000 in investment income earned on proceeds from two 1991 common stock offerings.

Total expenses for the period increased to $41,373,000, an increase of 64.5%. Of the $16,222,000 increase, $14,664,000, or 90.4%, was due to an increase in hospital operating expenses. Of the $14,664,000 increase, $7,361,000, or 50.2%, was due to hospital operating expenses at new hospitals, and $7,303,000, or 49.8%, was due to a higher patient census at those hospitals in operation during both periods.

Corporate general and administrative expenses increased 77.2% from $1,311,000 to $2,323,000. For 1991 and 1992, these expenses were 4.7% and 5.0% of net revenues, respectively. This increase was primarily due to an increase in travel expenses and salaries for new employees. These expenses increased as a percent of net revenues due to the substantial increase in the number of facilities in a start-up phase for the period ended March 31, 1992, as compared to March 31, 1991. New facilities require corporate support services prior to contributing revenues.

Depreciation and amortization increased 174.6% from $473,000 to $1,299,000 in 1992, as the Company purchased and renovated additional hospital facilities. Net depreciable assets were $29,631,000 and $49,346,000 at March 31, 1991 and 1992, respectively.

Interest expense decreased 78.2% from $358,000 to $78,000 in 1992. This decrease was due primarily to the repayment of debt using the net proceeds from the Company's common stock offerings in October 1990, February 1991 and October 1991.

II. LIQUIDITY AND CAPITAL RESOURCES

Three Months Ended March 31, 1992 Compared to March 31, 1991

Working capital was $33,783,000 and $61,477,000 as of March 31, 1991 and March 31, 1992, respectively. Cash, cash equivalents and short-term investments totalled $19,874,000 and $25,353,000 at March 31, 1991, and March 31, 1992, respectively. Historically, the Company has financed its growth and operations principally through bank borrowings and the issuance of equity securities. During the first quarter of 1992, the Company used current cash holdings to finance acquisitions of three additional hospital facilities.

Net cash used in operating activities for the three months ended March 31, 1992 was $804,000 compared to net cash provided by operating activities of $1,888,000 for the same period last year. Net cash used in or provided by operating activities was reduced by increases in net accounts receivable of $4,185,000 and $8,614,000 in 1991 and 1992, respectively. On February 19, 1991, the Company received payment of approximately $2,500,000 on a note receivable in connection with the termination of its Management Agreement relating to Vencor Hospital • South Louisiana.

Net cash used in investing activities increased to $17,275,000 from $7,784,000. Cash used in investing activities in 1992 was primarily attributable to the purchase of three additional facilities as well as renovation costs of newly-acquired and existing hospital facilities. Cash used in investing activities in 1991 included the acquisition of one hospital facility.

Net cash provided by financing activities decreased to $9,000 from $21,285,000 for the same period last year. This decrease primarily reflects the proceeds from the Company's February 1991 common stock offering.

PART II. OTHER INFORMATION

Item 1.	Legal Proceedings	None
Item 2.	Changes in Securities	None
Item 3.	Defaults Upon Senior Securities	None
Item 4.	Submission of Matters to a Vote of Security Holders	None
Item 5.	Other Information	None
Item 6.	Exhibits and Reports on Form 8-K	

(a) The following exhibits are included herein:

(4) Instruments Defining the Rights of Security Holders, Including Indentures

(11) Statement Re: Computation of Earnings Per Share

(b) Reports on Form 8-K

No reports on Form 8-K were filed during the quarter ended March 31, 1992.

10

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

VENCOR, INCORPORATED
Registrant

Date April 22, 1992

By

W. Bruce Lunsford, Esq.
Chairman of the Board,
President and Chief Executive Officer

Date April 22, 1992

By

W. Earl Reed, III
Vice President, Finance and Development

EXHIBIT INDEX

No.	Description	Page No.
4	Instruments Defining the Rights of Security Holders, Including Indentures	12
11	Statement Re: Computation of Earnings Per Share	13

EXHIBIT (4) -- INSTRUMENTS DEFINING THE RIGHTS OF SECURITY HOLDERS, INCLUDING INDENTURES

Copies of debt instruments for which the related debt is less than 10% of total assets will be furnished to the Commission upon request.

EXHIBIT (11) -- STATEMENT RE: COMPUTATION OF EARNINGS PER SHARE

The earnings per share amounts in the statements of operations have been computed in accordance with a Staff Accounting Bulletin (SAB) of the Securities and Exchange Commission. Earnings per share are based on the weighted average number of common shares and common share equivalents outstanding. Common share equivalents include dilutive stock options using the treasury stock method (computed at the average market price during the periods indicated).

The weighted average number of common shares and common stock equivalents used in the computation of earnings per share is as follows:

	Three months ended March 31	
	1992	1991
	Primary	Primary
Weighted average of shares outstanding	17,767,372	13,557,653
Incremental shares from use of treasury stock method for stock options at the average market prices for the periods indicated	619,321	639,661
Average common and common equivalent shares outstanding	18,386,693	14,197,314
Net income (in thousands)	$ 3,323	$ 1,730
Per share amount	$ 0.18	$ 0.12